AMLAK INTERNATIONAL FOR
REAL ESTATE FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
FINANCIAL STATEMENTS
For the year ended 31 December 2019
together with the
INDEPENDENT AUDITOR'S REPORT

KPMG

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Licence No. 46/11/323 issued 11/3/1992

Independent Auditor's Report

To the Shareholders of Amlak International for Real Estate Finance Company

Opinion

We have audited the financial statements of Amlak International for Real Estate Finance Company ("the Company"), which comprise the statement of financial position as at 31 December 2019, the statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA") that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, the Regulations for Companies, and the Company's By-laws and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, the Board of Directors, are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 'Reasonable assurance' is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

KPMG

Independent Auditor's Report

To the Shareholders of Amlak International for Real Estate Finance Company (continued)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

As part of an audit in accordance with ISA that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit of Amlak International for Real Estate Finance Company ("the Company").

For KPMG Al Fozan & Partners
Certified Public Accountants

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Fahad Mubark Al Dossari
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Al Riyadh, 3 Rajab 1441H
Corresponding to: 27 February 2020

AMLAK INTERNATIONAL FOR REAL ESTATE FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF FINANCIAL POSITION
As at 31 December 2019
(SR '000)

	Note	**2019**	2018 *Restated*
ASSETS			
Cash and cash equivalents	*6*	**7,876**	15,965
Investments	*7*	**11,922**	12,484
Murabaha receivables, net	*8*	**123,450**	108,256
Ijara receivables, net	*9*	**3,016,729**	2,902,822
Ijara Mawsofa Fi Athemmah receivables, net	*10*	**57,449**	79,662
Prepayments and other assets	*11*	**127,647**	106,984
Investments in joint ventures	*12*	**--**	7,922
Property and equipment, net	*13*	**60,061**	27,838
Positive fair value of derivatives	*15*	**71**	1,087
Deferred tax asset	*16*	**--**	516
TOTAL ASSETS		**3,405,205**	3,263,536
LIABILITIES AND EQUITY			
Account payables and other accruals	*14*	**147,829**	92,086
Negative fair value of derivatives	*15*	**3,621**	--
Zakat and income tax payable	*16*	**34,380**	36,790
Borrowings	*17*	**2,080,432**	1,994,132
Employees' end of service benefits	*18*	**13,666**	13,618
TOTAL LIABILITIES		**2,279,928**	2,136,626
Share capital	*19*	**906,000**	906,000
Statutory reserve	*20*	**68,416**	61,415
Fair value reserve		**--**	(409)
Cash flow hedge reserve	*15*	**(3,550)**	1,087
Retained earnings		**154,411**	158,817
TOTAL EQUITY		**1,125,277**	1,126,910
TOTAL LIABILITIES AND EQUITY		**3,405,205**	3,263,536

The accompanying notes 1 to 35 form an integral part of these financial statements.

AMLAK INTERNATIONAL FOR REAL ESTATE FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2019
(SR '000)

	Note	**2019**	2018 *Restated*
INCOME			
Income from Murabaha contracts		**8,607**	16,370
Income from Ijara contracts		**259,884**	236,590
Income from Ijara Mawsofa Fi Athemmah contracts		**5,529**	6,398
Gain on sale of portfolio		**9,158**	--
Fees and commission income		**13,167**	7,726
Total income from Murabaha, Ijara and Ijara Mawsofa Fi Athemmah		**296,345**	267,084
EXPENSES			
Fee expense		**(2,843)**	(1,582)
Finance cost		**(93,767)**	(88,087)
Net income from Murabaha, Ijara and Ijara Mawsofa Fi Athemmah		**199,735**	177,415
Other operating (loss) / income			
Other (loss) / income		**(562)**	226
		199,173	177,641
OPERATING EXPENSES			
Depreciation and write off	*13*	**(3,501)**	(3,044)
General and administrative expenses	*24*	**(78,404)**	(63,541)
Selling and marketing expenses	*25*	**(13,143)**	(11,469)
Impairment loss on property and equipment	*13*	**--**	(2,100)
Impairment charge for credit losses, net		**(1,752)**	98
Operating profit		**102,373**	97,585
Arrangement fee		**--**	268
Share in net (loss) / income from joint ventures	*12*	**(314)**	(240)
Profit before zakat and income tax		**102,059**	97,613
Zakat and income tax expense:			
- Current year		**(15,441)**	(2,984)
- Prior year		**(16,608)**	(33,474)
NET PROFIT FOR THE YEAR AFTER ZAKAT AND INCOME TAX		**70,010**	61,155
Basic and diluted earnings per share (SR)	*22*	**0.77**	0.68

The accompanying notes 1 to 35 form an integral part of these financial statements.

AMLAK INTERNATIONAL FOR REAL ESTATE FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2019
(SR '000)

	Note	**2019**	2018
NET PROFIT FOR THE YEAR		**70,010**	61,155
OTHER COMPREHENSIVE (LOSS) / INCOME			
Items that may be reclassified to profit or loss in subsequent years:			
Net movement in cash flow hedges		**(4,637)**	707
Items that will not to be reclassified to profit or loss in subsequent years:			
Change in fair value of investments held at FVOCI	*7*	**--**	(1,296)
Actuarial gain / (loss) on defined benefit plans	*18*	**944**	(929)
Other comprehensive loss		**(3,693)**	(1,518)
TOTAL COMPREHENSIVE INCOME		**66,317**	59,637

The accompanying notes 1 to 35 form an integral part of these financial statements.

AMLAK INTERNATIONAL FOR REAL ESTATE FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2019
(SR '000)

	Share Capital	Statutory reserve	Unrealised gain/(loss) on available for sale investment	Fair value reserve investment at FVOCI	Cash flow hedge reserve	Retained earnings	Total
Balance at 31 December 2018 – as previously reported (audited)	**906,000**	**61,415**	**--**	**(409)**	**1,087**	**158,301**	**1,126,394**
Impact of change in accounting of zakat and income tax (note 2)	**--**	**--**	**--**	**--**	**--**	**516**	**516**
Balance at 31 December 2018 – as restated	**906,000**	**61,415**	**--**	**(409)**	**1,087**	**158,817**	**1,126,910**
Impact of adoption of new standard and other adjustments at 1 January 2019 (note 3)	**--**	**--**	**--**	**409**	**--**	**(409)**	**--**
Net profit for the year	**--**	**--**	**--**	**--**	**--**	**70,010**	**70,010**
Other comprehensive loss / income	**--**	**--**	**--**	**--**	**(4,637)**	**944**	**(3,693)**
Total comprehensive (loss) / income	**--**	**--**	**--**	**--**	**(4,637)**	**70,954**	**66,317**
Transfer to statutory reserve (note 20)	**--**	**7,001**	**--**	**--**	**--**	**(7,001)**	**--**
Dividend (note 21)	**--**	**--**	**--**	**--**	**--**	**(67,950)**	**(67,950)**
Balance at 31 December 2019	**906,000**	**68,416**	**--**	**--**	**(3,550)**	**154,411**	**1,125,277**
For the year ended 31 December 2018							
Balance at 31 December 2017 – as previously reported (audited)	903,000	51,654	887	--	380	213,375	1,169,296
Impact of change in accounting of zakat and income tax (note 2)	--	--	--	--	--	508	508
Balance at 31 December 2017 – as restated	903,000	51,654	887	--	380	213,883	1,169,804
Impact of adopting of new standards at 1 January 2018	--	--	(887)	887	--	(37,806)	(37,806)
Net profit for the year	--	--	--	--	--	61,155	61,155
Other comprehensive (loss)	--	--	--	(1,296)	707	(929)	(1,518)
Total comprehensive income / (loss)	--	--	--	(1,296)	707	60,226	59,637
Transfer to statutory reserve (note 18)	--	9,761	--	--	--	(9,761)	--
Dividend (note 19)	--	--	--	--	--	(67,725)	(67,725)
Increase in share capital (note 17)	3,000	--	--	--	--	--	3,000
Balance at 31 December 2018 – as restated	906,000	61,415	-	(409)	1,087	158,817	1,126,910

The attached notes 1 to 23 form part of these condensed interim condensed financial statements

AMLAK INTERNATIONAL FOR REAL ESTATE FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF CASH FLOWS
For the year ended 31 December 2019
(SR '000)

	Note	2019	2018
Cash flows from operating activities:			
Net profit for the year before zakat and income tax		**102,059**	97,613
Non-cash adjustment to reconcile net profit before zakat and income tax for the year to net cash from operating activities			
Depreciation	*13*	**3,501**	3,044
Impairment loss on property and equipment	*13*	**--**	2,100
Borrowing cost		**93,767**	88,087
Employees' end of service benefits	*18*	**2,911**	2,495
Impairment allowance for credit losses, net		**1,752**	(98)
Gain on sale of portfolio		**(9,158)**	--
Arrangement fee		**--**	(268)
Other loss / (income)		**562**	(226)
Share of net loss from joint ventures		**314**	240
		195,708	192,987
(Increase) / decrease in operating assets			
Murabaha receivables		**(11,953)**	150,056
Ijara receivables		**(116,840)**	(194,710)
Ijara Mawsofa Fi Athemmah receivables		**20,154**	38,072
Prepayments and other assets		**(5,397)**	1,165
Increase / (decrease) in operating liabilities			
Account payables and other accruals		**25,194**	26,774
Cash generated from operations activities		**106,866**	214,344
Borrowing facility cost paid	*17*	**(93,219)**	(87,717)
Employees' end of service benefits paid	*18*	**(1,919)**	(2,715)
Zakat and income tax paid	*16*	**(34,782)**	(3,398)
Net cash (used in) / generated from operating activities		**(23,054)**	120,514
Cash flows from investing activities			
Purchase of property and equipment	*13*	**(10,076)**	(4,082)
Proceeds from withdrawals of investment in joint ventures	*12*	**7,608**	18,165
Investments in joint ventures	*12*	**--**	(1,235)
Investments at fair value through other comprehensive income		**--**	(893)
Net cash (used in) / generated from investing activities		**(2,468)**	11,955
Cash flows from financing activities			
Repayment against borrowings	*17*	**1,103,000**	(1,164,513)
Proceeds from borrowings	*17*	**(1,016,300)**	1,086,100
Dividend paid	*21*	**(67,950)**	(67,725)
Payment of lease liabilities		**(1,317)**	--
Net cash generated from / (used in) financing activities		**17,433**	(146,138)
Net decrease in cash and cash equivalents		**(8,089)**	(13,669)
Cash and cash equivalents at beginning of the year	*6*	**15,965**	29,634
Cash and cash equivalents at end of the year	*6*	**7,876**	15,965
Non-cash supplemental information:			
Net changes in fair value of cash flow hedge		**(4,637)**	707
Change in fair value of investments at FVOCI		**--**	(1,296)
Issuance of share capital – bonus shares issued	*19*	**--**	3,000
Distribution from joint venture		**--**	4,439
Right-of-use-assets		**24,995**	--
Lease liabilities		**21,984**	--

The accompanying notes 1 to 35 form an integral part of these financial statements.

1 THE COMPANY AND THE NATURE OF OPERATIONS

Amlak International for Real Estate Finance Company ("Amlak" or the "Company") is a Saudi Closed Joint Stock Company established and registered in the Kingdom of Saudi Arabia under commercial registration number 1010234356 in Riyadh dated 25 Jumada Awal 1428H (corresponding to 11 June 2007). As part of the mortgage regulations, the Company is in the process of exiting from the investment related business.

As per the revised commercial registration certificate of the Company dated 11 Ramadan 1435H (corresponding to 8 July 2014), the objectives of the Company is to provide real estate finance as per Saudi Arabian Monetary Authority ("SAMA") license dated 21 Safar 1435H (corresponding to 24 December 2013). As part of

The registered office of the Company is located King Saud Road Riyadh, Kingdom of Saudi Arabia. A Corporate Office has been established in Jeddah by the Company during the year. The Company has following branches:

Branch Commercial Registration Number	Date of issuance	Location
2050057816	30/12/1428	Khobar
4030171680	24/07/1428	Jeddah

The Company owns a wholly owned Amlak International For Real Estate Development Company (the "Subsidiary"), having a share capital of SR 500,000. The objective of the Subsidiary is to hold titles to the real estate properties financed by the Company. The Company has not consolidated the subsidiary as assets and liabilities of this subsidiary are not considered material.

The Company is in the process of listing its equity shares on Tadawul (Kingdom of Saudi Arabia Stock Exchange). In this respect, the Company has obtained Capital Market Authority approval for Initial Public Offering and the Company has six-month period ending in June 2020 for listing its shares.

2 BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements of the Company are prepared:

(a) in accordance with 'International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (SOCPA); and

b) in compliance with the provisions of the Regulations for Companies in the Kingdom of Saudi Arabia and the by-laws of the Company.

The financial statements of the Company as at and for the period and year ended 31 March 2019 and 31 December 2018, respectively, were prepared in compliance with IAS 34 and the International Financial Reporting Standards ("IFRS") respectively, as modified by SAMA for the accounting of zakat and income tax (relating to the application of IAS 12 "Income Taxes" and International Financial Reporting Interpretation Committee Interpretation ("IFRIC") 21 "Levies" so far as these relate to zakat and income tax) and the Regulations for Companies in the Kingdom of Saudi Arabia.

On 18 July 2019, SAMA instructed the financing companies in the Kingdom of Saudi Arabia to account for the zakat and income taxes in the statement of profit or loss. This aligns with the IFRS and its interpretations as issued by the International Accounting Standards Board ("IASB") and as endorsed in the Kingdom of Saudi Arabia and with the other standards and pronouncements that are issued by the Saudi Organisation for Certified Public Accountants ("SOCPA") (collectively referred to as "IFRS as endorsed in KSA").

Accordingly, the Company changed its accounting treatment for zakat and income tax by retrospectively adjusting the impact in line with International Accounting Standard 8 "Accounting Policies, Changes in Accounting Estimates and Errors" including the effects of this change, which are disclose in this note.

The presentation and classification of certain items are amended in these financial statements to ensure comparability with the current year.

2 BASIS OF PREPARATION (CONTINUED)

Basis of measurement

These financial statements have been prepared under the historical cost convention except for the measurement of derivatives and investments at fair value. Further, employees' end of service benefits are measured at present value of future obligations using the Projected Unit Credit Method.

Functional and presentation currency

These financial statements are presented in Saudi Arabian Riyals ("SR"), which is the Company's functional currency. Except as indicated, the financial information presented in SR has been rounded-off to the nearest thousand.

Change in the accounting for zakat and income tax:

As mentioned above, the basis of preparation has been changed for the year ended 31 December 2019 as a result of the issuance of latest instructions from SAMA dated 18 July 2019. Previously, zakat and income tax were recognized in the statement of changes in equity as per the SAMA circular no 381000074519 dated 11 April 2017. With the latest instructions issued by SAMA dated 18 July 2019, the zakat and income tax shall be recognized in the statement of profit or loss. The Company has accounted for this change in the accounting for zakat and income tax retrospectively and the effects of the above change are disclosed in this note. The change has resulted in reduction of reported income of the Company for the year ended 31 December 2018 by SR 36.458 million. The change has had no impact on the statement of cash flows for the year ended 31 December 2018.

Below is the accounting policies on zakat and income tax:

Income tax:

The income tax expense or credit for the period is the tax payable on the current period's taxable income, based on the applicable income tax rate applicable in the Kingdom of Saudi Arabia, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the Kingdom of Saudi Arabia. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Adjustments arising from the final income tax assessments are recorded in the period in which such assessments are made. The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted for the changes in deferred tax assets and liabilities attributable to the temporary differences and unused tax losses, if any.

IFRIC 23 "Uncertainty over Income Tax Treatment"

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

2 BASIS OF PREPARATION (CONTINUED)

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty needs to be followed.

Deferred tax:
Deferred tax is provided using the liability method on temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for the taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amounts of assets and liabilities using the tax rates enacted or substantively enacted at the reporting date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available and the credits can be utilized. Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefits will be realized.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised.

Zakat:
The Company is subject to zakat in accordance with the regulations of the General Authority of Zakat and Income Tax ("GAZT"). Zakat expense is charged to the profit or loss. Zakat is not accounted for as income tax and as such no deferred tax is calculated relating to zakat.

Effect of change in accounting of zakat and income tax:
The change in the accounting treatment for zakat and income tax has the following impact on the line items of the statement of financial position, statements of income and statement of changes in equity:

For the year ended 31 December 2018:

Financial statement impacted	Account	Before restatement	Effect of restatement	As restated
Statement of changes in equity	Provision for zakat and income tax (retained earnings)	(36,466)	36,466	--
Statement of profit or loss	Zakat and income tax expense	--	(36,458)	36,458

As at 31 December 2018:

Financial statement impacted	Account	Before restatement	Effect of restatement	As restated
Statement of financial position	Deferred tax asset	--	516	516
Statement of financial position	Retained earnings	158,301	516	158,817

As at 1 January 2018:

Financial statement impacted	Account	Before restatement	Effect of Restatement	As restated
Statement of financial position	Deferred tax asset	--	508	508
Statement of financial position	Retained earnings	213,375	508	213,883

3. IMPACT OF CHANGE IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS

IFRS 16 "leases"
IFRS 16 Leases replaces the guidance on leases, which was included in IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC 15 "Operating Leases – Incentives" and SIC 27 "Evaluating the Substance of Transactions in the Legal Form of a Lease".

Effective 1 January 2019 the Company has adopted a new accounting standard, the impact of the adoption of this standard is explained below:

Before 1 January 2019, the Company followed the below accounting policy for leases in which the Company was a lessee:

Operating leases
Where the Company was a lessee, rental payments were recognised as expenses in the statement of profit or loss on a straight-line method basis over the lease contract period.

Accounting policy applicable on and after 1 January 2019:
On initial recognition at inception of the contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is identified if most of the benefits are flowing to the Company and the Company can direct the usage of such assets.

Right of Use Assets
The right of use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain re-measurement of the lease liability.

Generally, right of use assets would be equal to the lease liability. However, if there are additional costs such as site preparation, non-refundable deposits, application money, other expenses related to transaction etc. need to be added to the right of use assets' value.

Lease Liability
The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, the Company's incremental borrowing rate.

After the commencement date, Company measures the lease liability by:
1. Increasing the carrying amount to reflect interest on the lease liability.
2. Reducing the carrying amount to reflect the lease payments made and;
3. Re-measuring the carrying amount to reflect any re-assessment or lease modification.

IFRS 16 stipulates that all leases and the associated contractual rights and obligations should generally be recognize in the Company's Financial Position, unless the term is 12 months or less or the lease for low value asset. Thus, the classification required under IAS 17 "Leases" into operating or finance leases is eliminated for Lessees. For each lease, the lessee recognizes a liability for the lease obligations incurred in the future. Correspondingly, a right to use the leased asset is capitalized, which is generally equivalent to the present value of the future lease payments plus directly attributable costs and is amortized over the useful life.

The Company has opted for the modified retrospective application permitted by IFRS 16 upon adoption of the new standard. During the first time application of IFRS 16 to operating leases, the right to use the leased assets was measured at the amount of lease liability, using the lessee's incremental borrowing rate at first time application.

IFRS 16 transition disclosures also requires the Company to present the reconciliation of the off-balance sheet lease obligations as of 31 December 2018 are reconciled as follows to the recognized the lease liabilities as of 1 January 2019.

3. IMPACT OF CHANGE IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS

RECONCILIATION OF LEASE LIABILITIES

	1 January 2019
Off-balance sheet lease obligations as of 31 December 2018	30,549
Current leases with a lease term of 12 months or less & low-value leases	(26,980)
Operating lease obligations as of 1 January 2019 (Gross without discounting)	3,569
Operating lease obligations as of 1 January 2019 (net, discounted)	3,262
Lease liabilities due to initial application of IFRS 16 as 1 January 2019	3,262

As of 1 January 2019, the Statement of Financial Position is impacted by IFRS 16 as follow:

- Right-of-use asset of SR 3.3 million is included in the “Property and equipment”.
- Lease liability of SR 3.3 million is included in the “Account payables and other accruals”.

As of 31 December 2019, the Statement of Financial Position is impacted by IFRS 16 as follow:

- Right-of-use asset of SR 24 million is included in the “Property and equipment”.
- Lease liability of SR 21 million is included in the “Account payables and other accruals”.

	2019
Maturity Analysis – Contractual undiscounted cash flows	
Less than one year	**3,783**
One to five years	**16,490**
More than five years	**11,000**
Total undiscounted lease liabilities at 31 December	**31,273**
Lease liabilities included in the statement of financial position at 31 December	**21,984**

OTHER ADJUSTMENT

As at 1 January 2019, the Company has rectified the classification of its investment in SAIB Saraya Tower Real Estate Development Fund from fair value through other comprehensive income to fair value through profit or loss “FVTPL”. Accordingly, fair value change has been taken to retained earnings.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are consistent with those followed in the preparation of previous year financial statements, except for the policies in note 2 and 3.

The following are the significant accounting policies followed in the preparation of these financial statements:

a) Cash and cash equivalents

Cash and cash equivalents consist of bank balances and cash in hand.

b) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment in value. The cost less estimated residual value of property and equipment is depreciated on a straight line basis over the estimated useful lives of the assets.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leasehold improvements are amortised on a straight-line basis over the shorter of the useful life of the improvement/assets or the term of the lease. Expenditure for repair and maintenance are charged to income. Improvements that increase the value or materially extend the life of the related assets are capitalised.

The estimated useful lives of the principal classes of assets are as follows:

	Years
Leasehold Improvements	shorter of 10 years or lease term
Furniture and fixtures	6
Office equipment	5
Information technology equipment	3 to 5 years
Software	10 years

c) *Investments in joint venture*

A joint venture ("JV") is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Company's investments in joint venture are accounted for using the equity method.

The Company's share of its JVs' post-acquisition income or losses is recognised in the statement of profit or loss. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Company's share of losses in a JV equals or exceeds its interest in the JV, including any other unsecured receivables, the Company does not recognise further losses, unless it has incurred obligations or made payments on behalf of the JV. Unrealised gains on transactions between the Company and its JVs are eliminated to the extent of the Company's interest in the JVs. Unrealised losses are also eliminated in the same way as unrealized gains unless the transaction provides evidence of an impairment of the asset transferred.

d) *Murabaha receivables*

Murabaha is an agreement whereby the Company sells to a customer an asset, which the Company has purchased and acquired based on a promise received from the customer to buy. The selling price comprises the cost plus an agreed profit margin. Gross amounts due under the Murabaha sale contracts include the total of future sale payments on the Murabaha agreement (Murabaha sale contract receivable). The difference between the Murabaha sale contracts receivable and the cost of the sold asset, is recorded as unearned Murabaha profit and for presentation purposes, is deducted from the gross amounts due under the Murabaha sale contracts receivable.

e) *Ijara receivables*

Ijara receivables represent assets transferred under finance lease under Islamic lease agreement and the present value of the lease payments is recognised as a receivable and disclosed under "Ijara receivables". The difference between the gross receivables and the present value of the receivables is recognised as unearned Ijara income. Ijara income is recognised over the term of the Ijara using the net investment method, which reflects a constant periodic rate of return.

f) *Ijara mowsofa fi athema receivables*

Ijara Mawsofa Fi Athemmah is an agreement where in gross amounts due under originated Ijara Mawsofa Fi Athemmah includes the total of future lease payments on Ijara Mawsofa Fi Athemmah (lease contracts receivable), plus estimated residual amounts receivable. The difference between the lease contracts receivable and the cost of the leased assets is recorded as unearned Ijara Mawsofa Fi Athemmah income and for presentation purposes, is deducted from the gross amounts due under Ijara Mawsofa Fi Athemmah. Ijara Mawsofa Fi Athemmah income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) *Impairment*

The Company recognizes impairment allowance for ECL on the following financial instruments:

- Murabaha receivables;
- Ijara receivables; and
- Ijara Mawsofa Fi Athemmah receivables.

No impairment loss is recognized on equity investments.

The Company measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive); and

- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset; and

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition .This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective profit rate of the existing financial assets.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or lease by the Company on terms that the Company would not consider otherwise; or
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A loan or lease that has been renegotiated due to deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan or lease that is overdue for 90 days or more is considered impaired.

Presentation of allowance for ECL in the statement of financial position
Impairment allowances for ECL of financial assets measured at amortised cost are presented in the statement of financial position as a deduction from the gross carrying amount of the assets.

Write-off
Murabaha receivables, Ijara receivables and Ijara Mawsofa Fi Athemmah receivables are written off (either partially or in full) when there is no realistic prospect of recovery. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company’s procedures for recovery of amounts due. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to impairment charge for credit losses.

Collateral valuation
To mitigate its credit risks on financial assets, the Company seeks to use collateral, where possible. The collateral comes in various forms, such as financial guarantees and real estate. Collateral, unless repossessed, is not recorded on the Company statement of financial position. However, the fair value of the real estate collateral affects the calculation of ECL. It is generally assessed, at a minimum, at inception and re-assessed on a periodic basis.

Non-financial collateral, such as real estate, is valued by third party valuers appointed by the Company.

Collateral repossessed
The Company policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Company policy.

h) Financial instruments
All financial assets and financial liabilities are initially recognized on the trade date i.e. the date which the Company becomes party to the contractual provisions of the instrument. Financial assets comprises of cash and cash equivalents, investments, Murabaha receivables, Ijara receivables, Ijara Mawsofa Fi Athemmah receivable, derivative and other receivables. Financial liabilities comprises of borrowings, derivatives, accounts and other payables and other liabilities.

Classification of financial assets
On initial recognition, a financial asset is classified as measured at: amortized cost, FVOCI or fair value through profit or loss (FVTPL).

Financial asset at amortised cost
A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:
- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.
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4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial asset at FVOCI
Debt instrument: A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Profit and foreign exchange gains and losses are recognised in profit or loss.

Equity instrument: On initial recognition, for an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an instrument-by- instrument basis.

Financial asset at FVTPL
All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Company may irrevocably designate a financial asset, that otherwise meets the requirements to be measured at amortized cost or at FVOCI, as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets are not reclassified subsequent to their initial recognition, except in the period when the Company changes its business model for managing financial assets.

Business model assessment
The Company assess the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual profit revenue, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realized.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case’ scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Company’s original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets that are held for trading and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessments whether contractual cash flows are solely payments of principal and profit:
For the purposes of this assessment, 'principal' is the fair value of the financial asset on initial recognition. 'Profit' is the consideration for the time value of money, the credit and other basic lending risk associated with the principal amount outstanding during a particular period and other basic lending costs (e.g. liquidity risk and administrative costs), along with profit margin.

In assessing whether the contractual cash flows are solely payments of principal and profit, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Company considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money- e.g. periodical reset of profit rates.

Classification of financial liabilities
The Company classifies its financial liabilities, as measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium to issue the funds, and other cost that are integral part of the effective profit rate.

Derecognition

Financial assets
The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of

(i) the consideration received (including any new asset obtained less any new liability assumed); and
(ii) any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss.

From 1 January 2019, any cumulative gain/loss recognized in OCI in respect of equity investment securities designated as at FVOCI is not recognized in profit or loss on derecognition of such securities. Any profit in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognized as a separate asset or liability.

In transactions in which the Company neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Company continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In certain transactions, the Company retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognized if it meets the derecognition criteria. An asset or liability is recognized for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

Financial liabilities
The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expire.

Modifications of financial assets and financial liabilities

Financial assets
If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value.

If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Company recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as profit.

Financial Liabilities
The Company derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in profit or loss.

Offsetting of financial instruments
Financial assets and liabilities are offset and reported net in the statement of financial position when the entity has a legal currently enforceable right to set off the recognised amounts and when the Company intends to settle on a net basis, or to realise the asset and settle the liability simultaneously. Income and expenses are not offset in the statement of profit or loss unless required or permitted by an accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Company.

Derivative financial instruments and hedge accounting
The Company uses derivative financial instruments to hedge its exposure to commission rate. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from the changes in the fair value of derivatives are taken directly to the statement of profit or loss, except for the effective portion of cash flow hedges, which is recognised in equity.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been and are expected to be highly effective throughout the financial reporting periods for which they were / are designated.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, for forecast transactions, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to statement of profit or loss for the period.

i) Income / expenses recognition

Income and expenses
Income from Murabaha, Ijara and Ijara Mawsofa Fi Athemmah contracts and borrowing costs are recognized in profit or loss using the effective profit method. The 'effective profit rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to or the amortized cost of the financial instrument.

When calculating the effective profit rate for financial instruments other than credit-impaired assets, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective profit rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective profit rate includes transaction costs and upfront fees that are an integral part of the effective profit rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Measurement of amortized cost and income
The 'amortized cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective profit method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

In calculating profit, the effective profit rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, profit is calculated by applying the effective profit rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of profit reverts to the gross basis.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For financial assets that were credit-impaired on initial recognition, profit is calculated by applying the credit-adjusted effective profit rate to the amortized cost of the asset. The calculation of profit does not revert to a gross basis, even if the credit risk of the asset improves.

j) Accrued expenses and other current liabilities

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

k) Provisions

Provisions are recognised when the Company has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and can be measured reliably.

l) Zakat and income tax

The Company's Saudi and GCC shareholders are subject to zakat and non-Saudi shareholders are subject to income tax in accordance with the regulations of the GAZT as applicable in the Kingdom of Saudi Arabia.

m) Employees' terminal benefits

The Company operates a defined benefit plan for employees in accordance with Saudi Labor Law as defined by the conditions stated in the laws of the Kingdom of Saudi Arabia. The cost of providing the benefits under the defined benefit plan is determined using the projected unit credit method.

Remeasurements for actuarial gains and losses are recognised immediately in the statement of financial position with a corresponding credit to retained earnings through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service cost are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date the Company recognises related restructuring costs

Interest cost is calculated by applying the discount rate to the net defined benefit liability. The Company recognises the following changes in the net defined benefit obligation in the statement of income of profit or loss:

- Service costs comprising current service costs, past service costs, gains and losses on curtailments and non routine-settlements (under general and administrative expenses)
- Net special commission expense or income (under borrowing facility cost and charges)

n) Expenses

Selling and marketing expenses are those that specifically relate to salesmen and marketing expenses. All other expenses are classified as general and administrative expenses.

o) Fee and commission income and expense

Feee income and expense that are integral part to the effective interest rate on a financial asset or financial liability are included in the effective interest rate. Other fee and commission income is recognised as the related services are performed including servicing income. Other fee expense relate mainly to transaction and services fee, which are expensed as the services are received.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

p) *Borrowing / financing cost*

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. finance costs consist of profit and other costs that an entity incurs in connection with the borrowing of funds and amortisation of financial charges and lease laibilities.

q) *Statutory reserve*

As required by Saudi Arabian Regulations for Companies and the Company's By-laws, 10% of the income for the year (after zakat and after deducting losses brought forward) should be transferred to the statutory reserve. This reserve is not available for distribution. As per the By-laws, the Company may resolve to discontinue such transfers when the reserve totals 30% of the capital.

r) *Fair value measurement*

The Company measures certain financial instruments, such as, derivatives and equity instruments at fair value at each statement of financial position date. Also, fair values of financial instruments measured at amortized cost are disclosed in note 28.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Company. The fair value of an asset or a liability is measured using assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. The fair value of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

At each reporting date, management of the Company analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Company's accounting policies. For this analysis, the management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities based on the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

s) Foreign currencies

Transactions in foreign currencies are recorded in Saudi Riyals at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. All differences are taken to the statement of profit or loss. The gains or losses on foreign currency transactions are included in the statement of profit or loss during the year.

t) Segment reporting

A segment is a distinguishable component of the Company that is engaged in providing products or services (a business segment), which is subject to risks and rewards that are different from those of other segments.

u) Other real estate asset

The Company acquires certain real estate against settlement of joint ventures and Murabaha, Ijara and Ijara Mowsofa Fi Athemah receivable balances. Such real estates are considered as assets held for sale and are initially stated at the lower of net realisable value of due receivable balances or the joint ventures and the current fair value of related properties, less any costs to sell.

v) Value added tax ("VAT")

The Company collects VAT from its customers for qualifying services provided, and make VAT payments to its vendors for qualifying payments. On a monthly basis, net VAT remittances are made to the GAZT representing VAT collected from its customers, net of any recoverable VAT on payments. Unrecoverable VAT is borne by the Company and is either expensed or in the case of property, equipment, and intangibles payments, is capitalized and either depreciated or amortized as part of the capital cost.

5 CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estiamtes. Estiamtes and underlying assumptions are reviewed on an ongoing basis. Revisions to estiamtes are recognised prospectively. Significant areas where management has used estimates, assumption or exercised judgment are as follows:

i. Impairment of financial assets

The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

5 CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The Company's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Company's internal credit grading, which assigns probability of defaults (PDs) to the individual grades;
- The Company's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime ECL basis and the qualitative assessment;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as Oil prices and collateral values, and the effect on PDs, exposure at default (EAD) and loss given defaults (LGD); and
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

ii. *Servicing rights under agency agreements*
An intangible asset is recognised for servicing rights under agency arrangements (acquired by the Company pursuant to sale of originated leases to third parties or as consideration for financing arrangements services) at the present value of net future cash flows under the agency arrangements. The net present value computation encompasses among others, estimates in respect of discount rate and fair value of services.

Assumptions and their sensitivity involved in the calculation of servicing rights under agency arrangements are as follows:

Discount rates:
Discount rate represents the current market assessment of the risks specific to the Company, taking into consideration Company's incremental borrowing rate.

Servicing costs:
The Company assesses the cost of servicing including staff and other costs, to arrive at a base rate per contract.

Early settlement rate:
The company calculates early settlement rate as a percentage of total portfolio sold to the portfolio which is settled till the end of the year.

iii. *Going concern*
The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Additionally, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements have been prepared on a going concern basis.

iv. *Fair value measurement - refer note 4 and 28*

v. *End of service benefits – refer note 16*

(SR'000)

6 CASH AND CASH EQUIVALENTS

	2019	2018
Cash in hand	**33**	25
Cash at bank – current accounts	**7,843**	15,940
	7,876	15,965

Bank balances are with counterparties that have investment grade credit ratings, i.e. 'BBB' or higher by Standard and Poor's or Moody's.

7 INVESTMENTS

	2019	2018
Investment at fair value through profit and loss (note 7.1)	**11,029**	11,591
Investment at fair value through other comprehensive income	**893**	893
	11,922	12,484

7.1 Investment at FVTPL represents investment in 120 units of SAIB Saraya Tower Real Estate Development Fund (2018: 120 units), a close-ended real estate development fund managed by Alistithmar Capital.

The movement in cost and unrealized loss of the investment at FVTPL during the year was as follows:

	2019	2018
Cost at the beginning and end of the year	**12,000**	12,000
Unrealised (loss) / gain:		
At beginning of the year	**(409)**	887
Change in fair value, net	**(562)**	(1,296)
At end of the year	**(971)**	(409)
Net carrying amount	**11,029**	11,591

8 MURABAHA RECEIVABLES, NET

	2019	2018
Gross Murabaha receivables	**125,419**	113,466
Less: Impairment allowance for credit losses	**(1,969)**	(5,210)
Murabaha receivables, net	**123,450**	108,256

8.1 The ageing of past due but not impaired Murabaha receivables was as follows:

Days past due:	**2019**	2018
1 – 30	**1,338**	804
31 – 60	**1,928**	--
61 –90	**812**	5,218
Total	**4,078**	6,022

The fair value of collaterals, based on latest independent appraisals, held against impaired Murabaha receivables as at 31 December was SR 19.63 million (2018: SR 20.84 million).

(SR'000)

8 MURABAHA RECEIVABLES, NET (CONTINUED)

8.2 The maturity profile of gross murabaha receivables as at 31 December was as follows:

	2019	2018
Not later than one year	**28,332**	46,445
Later than one year but not later than five years	**67,760**	63,429
Later than five years	**29,327**	3,592
Total	**125,419**	113,466

8.3 The table below stratifies credit exposures from Murabaha receivables into ranges of receivable to value ratio. Murabaha receivable to value ratio is calculated by dividing the gross amount of the financing to fair value of the underlying property. The gross amount of financing used in calculating this ratio exclude any impairment allowance.

	2019	2018
Less than 50%	**26,696**	41,138
51-70%	**93,826**	57,512
71-85%	**4,897**	14,816
86-100%	**--**	--
Total Exposure	**125,419**	113,466

9 IJARA RECEIVABLES, NET

	2019	2018
Gross Ijara receivables	**4,204,624**	3,948,092
Less: Unearned income	**(1,102,495)**	(962,803)
	3,102,129	2,985,289
Less: Impairment allowance for credit losses	**(85,400)**	(82,467)
Ijara receivables, net	**3,016,729**	2,902,822

9.1 The ageing of past due but not impaired Ijara receivables are as follows:

Days past due:	**2019**	2018
1 – 30	**151,548**	189,807
31 – 60	**121,152**	106,236
61 –90	**60,094**	105,262
Total	**332,794**	401,305

The fair value of collaterals, based on latest independent appraisals, held against impaired Ijara receivables as at 31 December was SR 474.13 million (2018: SR 644.67 million).

9.2 The maturity profile of Ijara receivables as at 31 December is as follows:

	2019			
	Not later than one year	**Later than one year but not later than five years**	**Later than five years**	**Total**
Ijara receivables	**901,098**	**2,140,538**	**1,162,988**	**4,204,624**
Less: Unearned income	**(245,512)**	**(568,681)**	**(288,302)**	**(1,102,495)**
	655,586	**1,571,857**	**874,686**	**3,102,129**
Less: Impairment allowance for credit losses				**(85,400)**
Ijara receivables, net				**3,016,729**

(SR'000)

9 IJARA RECEIVABLES, NET (CONTINUED)

	2018			
	Not later than one year	Later than one year but not later than five years	Later than five years	Total
Ijara receivables	1,011,366	2,048,796	887,930	3,948,092
Less: Unearned income	(234,500)	(481,066)	(247,237)	(962,803)
	776,867	1,567,730	640,693	2,985,289
Less: Impairment allowance for credit losses				(82,467)
Ijara receivables, net				2,902,822

9.3 The table below stratifies credit exposures from Ijara receivables into ranges of receivable to value ratio. Ijara receivable to value ratio is calculated by dividing the gross amount of the financing to fair value of the underlying property. The gross amount of financing used in calculating this ratio excludes unearned income and any impairment allowance.

	2019	2018
Less than 50%	**829,140**	718,758
51-70%	**1,055,360**	1,283,993
71-85%	**793,891**	579,509
86-100%	**391,495**	403,028
Above 100%	**32,243**	--
Total Exposure	**3,102,129**	2,985,289

10 IJARA MAWSOFA FI ATHEMMAH RECEIVABLES, NET

	2019	2018
Gross Ijara Mawsofa Fi Athemmah receivables	**128,100**	131,864
Less: Unearned income	**(68,363)**	(51,973)
	59,737	79,891
Less: Impairment allowance for credit losses	**(2,288)**	(229)
Ijara Mawsofa Fi Athemmah receivables, net	**57,449**	79,662

10.1 The ageing of past due but not impaired Ijara Mawsofa Fi Athemmah receivables as at 31 December was as follows:

Days past due:	**2019**	2018
1 – 30	**731**	--
31 – 60	**1,411**	2,583
61 –90	**--**	--
Total	**2,142**	2,583

There were no collaterals held against impaired Ijara Mawsofa Fi Athemmah receivables.

(SR'000)

10 IJARA MAWSOFA FI ATHEMMAH RECEIVABLES, NET (CONTINUED)

10.2 The maturity profile of Ijara Mawsofa Fi Athemmah receivables as at 31 December was as follows:

	2019			
	Not later than one year	**Later than one year but not later than five years**	**Later than five years**	**Total**
Ijara Mawsofa Fi Athemmah receivables	**10,387**	**35,902**	**81,811**	**128,100**
Less: Unearned income	**(6,763)**	**(23,310)**	**(38,290)**	**(68,363)**
	3,624	**12,592**	**43,521**	**59,737**
Less: Impairment allowance for credit losses				**(2,288)**
Ijara Mawsofa Fi Athemmah receivables, net				**57,449**

	2018			
	Not later than one year	Later than one year but not later than five years	Later than five years	Total
Ijara Mawsofa Fi Athemmah receivables	12,608	43,780	75,476	131,864
Less: Unearned income	(5,674)	(19,515)	(26,784)	(51,973)
	6,934	24,265	48,692	79,891
Less: Impairment allowance for credit losses				(229)
Ijara Mawsofa Fi Athemmah receivables, net				79,662

10.3 The table below stratifies credit exposures from Ijara Mawsofa Fi Athemmah receivables into ranges of receivable to value ratio. Ijara Mawsofa Fi Athemmah receivables to value ratio is calculated by dividing the gross amount of the financing to fair value of the underlying property. The gross amount of financing used in calculating this ratio excludes unearned income and any impairment allowance.

	2019	2018
Less than 50%	**23,199**	1,545
51-70%	**13,713**	19,938
71-85%	**14,245**	33,649
86-100%	**5,770**	24,759
Above 100%	**2,810**	--
Total Exposure	**59,737**	79,891

11 PREPAYMENTS AND OTHER ASSETS

	2019	2018
Other real estate assets (note 11.1)	**78,911**	84,951
Value added tax receivable (note 11.2)	**23,307**	4,613
Receivable from joint ventures	**5,575**	4,784
Accrued profit on derivatives	**840**	965
Prepaid rent	**200**	3,619
Others	**18,814**	8,053
	127,647	106,984

11 PREPAYMENTS AND OTHER ASSETS (CONTINUED)

11.1 During 2017, one joint venture was liquidated. All the underlying assets of that joint ventures was settled in kind between the joint venture partners proportionate to their respective share. The Company considered these assets as held for sale and were carried at the lower of cost and the fair value of the related properties, less any costs to sell.

11.2 This includes receivable from Ministry of Housing ("MOH") against VAT receivables and advance VAT paid to GAZT (note 30).

12 INVESTMENTS IN JOINT VENTURES

The Company used to have joint control and ownership interest with varying shareholding percentages in different joint arrangements. The joint arrangements are structured as a separate vehicle and the Company has a residual interest in its net assets. Accordingly, the Company classified its interest as a joint venture, which is equity-accounted. The Company does not consolidate the results of the JVs as it shares control and equal representation on the Board with the co-venturers.

No new investments in excess of original commitments have been made by the Company after 7 November 2014 to comply with the real estate financing laws. The existing portfolio will remain in the name of the Company till its maturity and disbursements for commitments in ongoing operations will continue to be booked by the Company.

In accordance with the agreements under which joint ventures are established, the Company and the co-ventures have agreed to make additional contributions in proportion to their interests to make up any losses, if required.

In 2019, the Company's interest in the joint venture has been extinguished as the joint ventures sold all the properties and proceed of the sales are distributed to co-ventures. Hence, as at 31 December 2019, the Company has no commitment for additional contribution to the joint ventures.

(SR'000)

12 INVESTMENTS IN JOINT VENTURES (CONTINUED)

a) Movement in investments in joint ventures is as follows:

2019	**Location**	**% of shareholding**	**Opening balance**	**Additions**	**Share in net income / (loss)**	**Distributions**	**Closing balance**
a) Dar wa Emar, Rahba	AlRahba, AlKhobar	90	**5,050**	**--**	**(564)**	**(4,486)**	**--**
b) AbdulAziz Al Qassim, Malga III	Malga, Riyadh	40	**2,872**	**--**	**250**	**(3,122)**	**--**
			7,922	**--**	**(314)**	**(7,608)**	**--**

2018	Location	% of shareholding	Opening balance	Additions	Share in net income / (loss)	Distributions	Closing balance
a) Dar wa Emar, Olaya	AlOlaya, AlKhobar	50	11,218	--	--	(11,218)	--
b) Dar wa Emar, Rahba	AlRahba, AlKhobar	90	9,280	--	(240)	(3,990)	5,050
c) AbdulAziz Al Qassim, Malga III	Malga, Riyadh	40	9,032	1,235	--	(7,395)	2,872
			29,530	1,235	(240)	(22,603)	7,922

(SR'000)

13 PROPERTY AND EQUIPMENT, NET

2019	**Land**	**Leasehold improvements**	**Office equipment**	**Furniture and fixtures**	**Information technology equipment**	**Right of use asset***	**Work in Progress****	**Total**
Cost:								
Balance at beginning of the year	**13,650**	**3,382**	**743**	**1,868**	**18,800**	**--**	**10,018**	**48,461**
IFRS 16 adjustment as at 1 January 2019	**--**	**--**	**--**	**--**	**--**	**3,262**	**--**	**3,262**
Additions	**--**	**7**	**94**	**144**	**1,785**	**22,388**	**8,044**	**32,462**
Transfers	**--**	**--**	**--**	**--**	**8,395**	**--**	**(8,395)**	**--**
Write off	**--**	**(65)**	**--**	**--**	**--**	**--**	**(639)**	**(704)**
Balance at end of the year	**13,650**	**3,324**	**837**	**2,012**	**28,982**	**25,650**	**9,028**	**83,483**
Accumulated depreciation:								
Balance at beginning of the year	**--**	**2,235**	**562**	**1,859**	**15,969**	**--**	**--**	**20,625**
Charge for the year	**--**	**323**	**77**	**21**	**1,785**	**655**	**--**	**2,861**
Reversal due to write off	**--**	**(65)**	**--**	**--**	**--**	**--**	**--**	**(65)**
Balance at end of the year	**--**	**2,493**	**639**	**1,880**	**17,755**	**655**	**--**	**23,422**
Net book value: At 31 December 2019	**13,650**	**831**	**198**	**132**	**11,227**	**24,995**	**9,028**	**60,061**

* Right of use assets pertains to lease of premises of the Company's head office and its branches.

**Work in progress as at 31 December 2019 represents mainly the amount paid for information technology system implementation / upgrade and the new head office.

(SR'000)

13 PROPERTY AND EQUIPMENT NET (CONTINUED)

2018	**Land**	**Leasehold improvements**	**Office equipment**	**Furniture and fixtures**	**Information technology equipment**	**Work in Progress****	**Total**
Cost:							
Balance at beginning of the year	**15,750**	**3,664**	**723**	**2,486**	**18,574**	**7,074**	**48,271**
Additions	**-**	**495**	**20**	**72**	**551**	**2,944**	**4,082**
Write off	**-**	**(776)**	**-**	**(690)**	**(325)**	**-**	**(1,791)**
Balance at end of the year	**15,750**	**3,382**	**743**	**1,868**	**18,800**	**10,018**	**50,562**
Accumulated depreciation:							
Balance at beginning of the year	**-**	**2,247**	**494**	**2,069**	**14,562**	**-**	**19,372**
Charge for the year	**-**	**386**	**68**	**137**	**1,664**	**-**	**2,255**
Reversal due to write off	**-**	**(398)**	**-**	**(347)**	**(257)**	**-**	**(1,003)**
Balance at end of the year	**-**	**2,235**	**562**	**1,859**	**15,968**	**-**	**20,624**
Impairment loss*	**2,100**	**-**	**-**	**-**	**-**	**-**	**2,100**
Net book value: At 31 December 2018	**13,650**	**1,148**	**181**	**9**	**2,832**	**10,018**	**27,838**

*In 2018, the Company recognized an impairment loss of SR 2.1 million on land, as a difference between the recoverable amount and carrying value.

**Work in progress as at 31 December 2018 represents mainly the amount paid for information technology system implementation and upgrade.

Property and equipment have been written off because the Company is moving to a new head office.

(SR'000)

14 ACCOUNTS PAYABLE AND OTHER ACCRUALS

	2019	2018
Financing to customers (note 14.1)	**37,697**	21,163
Payable to MOH (note 14.2)	**33,357**	26,278
Lease liabilities	**21,984**	--
Salaries and employee related expenses	**15,823**	10,205
Accrued expenses	**9,701**	6,330
Amount received from customers (note 14.3)	**7,351**	8,857
Others (notes 14.4 and 30)	**21,916**	19,253
	147,829	92,086

14.1 Financing to customers arise when the financing arrangement has been agreed with the customer, but the amount is not disbursed due to normal delay in the transfer of property.

14.2 This pertains to property purchase for customers in a scheme introduced by MOH.

14.3 This majorly represents down payment received from the customers, which is not paid to the seller of the property.

14.4 This includes amount pertaining to late payment charges accrued from customers equal to SR 8.51 million (2018: SR 14.68 million). In accordance with the Shari'a advisor, late payment charges collected are recognized as other liabilities in the statement of financial position and are paid as charity.

15 DERIVATIVES

As at 31 December 2019, the Company held profit rate swaps ("PRS") of a notional value of SR 300 million (2018: SR 200 million) in order to hedge its exposure to commission rate risks related to long term financing and leasing. The table below shows the fair values of derivative financial instruments, recorded as assets and liabilities:

	Positive fair value of PRSs	**Negative fair value of PRSs**	**Cash flow hedge reserve**
2019	**71**	**(3,621)**	**(3,550)**
2018	1,087	-	1,087

16 ZAKAT AND INCOME TAX

a) Deferred tax asset

	For the year ended 31 December	
	2019	2018 *Restated*
Opening balance	**516**	508
(Utilization) / origination of temporary difference	**(516)**	8
Closing balance	**--**	516

The deferred tax arises on end of service benefits, allowance for expected credit losses and depreciation of property and equipment

(SR'000)

16 ZAKAT AND INCOME TAX (CONTINUED)

2019	**Opening deferred tax**	**Recognised in P&L**	**Closing deferred tax**
Deductible temporary difference			
Allowances for expected credit losses	457	(457)	--
End of service benefit	71	(71)	--
Total	**528**	**(528)**	--
Taxable temporary difference			
Depreciation of property and equipment	(12)	12	--
Total	**(12)**	**12**	--
Net of deductible and taxable temporary difference	**516**	**(516)**	--

2018	Opening deferred tax	Recognised in P&L	Closing deferred tax
Deductible temporary difference			
Allowances for expected credit losses	458	(1)	457
End of service benefit	67	4	71
Total	525	3	528
Taxable temporary difference			
Depreciation of property and equipment	(17)	5	(12)
Total	(17)	5	(12)
Net of deductible and taxable temporary difference	508	8	516

b) The movement in zakat and income tax is as follow:

	31 December 2019		
	Zakat	**Income tax**	**Total**
Balance at the beginning of the year	**36,147**	**643**	**36,790**
Charge for the year:			
- current year	**14,857**	**68**	**14,925**
- prior years	**16,367**	**241**	**16,608**
	31,224	**309**	**31,533**
Unwinding of discount	**839**	**--**	**839**
Payments made during the year	**(34,030)**	**(752)**	**(34,782)**
Balance as at end of the year	**34,180**	**200**	**34,380**

	31 December 2018		
	Zakat	Income tax	Total
Balance at the beginning of the year	2,937	785	3,722
Charge:			
- current year	2,481	511	2,992
- prior years	33,474	--	33,474
	35,955	511	36,466
Payments made during the year	(2,745)	(653)	(3,398)
Balance as at end of the year	36,147	643	36,790

(SR'000)

16 ZAKAT AND INCOME TAX (CONTINUED)

c) Zakat and Income tax expense

Breakup of zakat and income tax expense in the statement of profit and loss is as follows:

	For the year ended 31 December	
	2019	2018 *Restated*
Charge / (reversal) for the year:		
- Current tax and zakat	**14,925**	2,992
- Prior years	**16,608**	33,474
- Deferred tax for the year	**516**	(8)
Charge for the year	**32,049**	36,458

d) Income tax reconciliation

	For the year ended 31 December	
	2019	2018
Accounting profit for the year	**102,059**	97,613
Permanent differences	**3,359**	11,357
Adjusted accounting profit for the year	**105,418**	108,970
Non-GCC shareholder share (0.3244% / 2.345%)	**341**	2,555
Tax charge on Income @ 20%	**68**	511

e) Zakat and income tax assessment status

Zakat and income tax declaration for all the years up to 2018 have been filed with the GAZT and acknowledgement certificates have been obtained.

Following is the zakat and income tax status of the Company;

2007 to 2012:

The GAZT issued assessments for the years 2007 to 2012 and claimed additional zakat and income tax and delayed penalty differences of SR 83,906,621. The differences mainly resulted from the non-deduction of the Ijara, Murabaha, the investment in joint ventures, accumulated losses and bonus. The case was transferred to the Higher Appeal Committee ("HAC").

The Company reached a final settlement with the GAZT whereby the zakat, income tax, and related penalty differences for the years 2007 to 2012 were reduced to SR 12,621,875 as follows:-

- Zakat differences of SR 12,396,758
- Tax differences of SR 205,117
- Penalty differences of SR 20,000

Pursuant to the settlement agreement, the Company paid SR 12.6 million during the year 2019.

2013 to 2017:

The GAZT issued assessment for the years 2013 to 2016 and claimed additional zakat, income tax and delayed penalty differences of SR 151,350,841. The differences mainly resulted from the non-deduction of the Ijara, Murabaha, the investment in joint ventures and loans.

The Company has signed a settlement agreement with GAZT in respect of zakat assessment years from 2013 to 2017. Pursuant to this settlement agreement, the Company is liable to pay an amount of SR 33.6 million in six instalments over five years as the final settlement for its zakat assessment. During the year, the Company has paid two instalments to GAZT amounted to SR 12.24 million.

(SR'000)

16 ZAKAT AND INCOME TAX (CONTINUED)

2018

Under the settlement agreement for the year 2013 to 2017, the GAZT has defined the zakat computation method for the year 2018. Accordingly, the Company recorded and paid the zakat liability for the year 2018.

2019

The Company has recorded zakat provision for the year ended 31 December 2019 in accordance with new zakat regulations issued on 17 March 2019.

17 BORROWINGS

These represent amounts borrowed from local commercial banks and Saudi Real Estate Re-finance Company ("SRC") under Islamic borrowings approved by Sharia Committee. These facilities carry borrowing costs at profit rates ranging from 3 months to 3 years Saudi Inter Bank Offer rates ("SIBOR") plus spread with maturity ranging from 1 month to 5 years and are secured by the assignment of proceeds from instalment receivables. Under the terms of the financing arrangement, the Company adhered to certain covenants. A breakdown of borrowings by maturity was as follows:

	2019	2018
Borrowings:		
Current portion	**714,910**	809,736
Non-current portion	**1,365,522**	1,184,396
	2,080,432	1,994,132

17.1 The movement in borrowings for the year ended 31 December was as follows:

	2019	2018
Balance at beginning of the year	**1,994,132**	2,072,175
Borrowings made during the year	**1,103,000**	1,086,100
Principal repayments during the year	**(1,016,300)**	(1,164,513)
Profit accrued during the year	**92,819**	88,087
Profit repayments during the year	**(93,219)**	(87,717)
Balance at end of the year	**2,080,432**	1,994,132

18 EMPLOYEES' END OF SERVICE BENEFITS

The following tables summarise the components of employees' benefits recognised in the statements of financial position, profit or loss and other comprehensive income.

a) Amount recognised in the statement of financial position as at 31 December:

	2019	2018
Present value of defined benefit obligation	**13,666**	13,618

b) Benefit expense (recognised in the statement of profit or loss):

	For the year ended 31 December	
	2019	2018
Current service cost	**2,253**	2,082
Interest cost	**658**	413
Benefit expense	**2,911**	2,495

(SR'000)

18 EMPLOYEES' END OF SERVICE BENEFITS (CONTINUED)

c) Movement in the present value of defined benefit obligation:

	For the year ended 31 December	
	2019	2018
Present value of defined benefit obligation at beginning of the year	**13,618**	12,909
Charge recognised in the statement of profit or loss:		
Current service cost	**2,253**	2,082
Finance cost	**658**	413
	2,911	2,495
Actuarial (gain) / loss on defined benefit plan recognized in the statement of other comprehensive income	**(944)**	929
Benefits paid	**(1,919)**	(2,715)
Present value of defined benefit obligation at end of the year	**13,666**	13,618

d) Principal actuarial assumptions:

	2019	2018
Discount rate	**3.3%**	4.6%
Salary increase rate	**3.3%**	4.6%

e) Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

	31 December 2019		31 December 2018	
	Increase	**Decrease**	Increase	Decrease
Discount rate (1%/ 0.5% movement)	**(1,047)**	**1,200**	(675)	731
Future salary growth (1% / 0.5% movement)	**1,216**	**(1,082)**	750	(699)

19 SHARE CAPITAL

As at 31 December 2019, the Company's authorised, issued and paid-up share capital was SR 906 million (31 December 2018: SR 906 million) divided into 90.6 million shares (31 December 2018: 90.6 million shares) with a nominal value of SR 10 each.

20 STATUTORY RESERVE

In accordance with the Company's by-laws and the Regulation for Companies in Saudi Arabia, 10% of the annual net income is transferred to statutory reserve until such reserve equals 30% of the Company's share capital. This reserve is not available for distribution to the shareholders. During the year, the Company has transferred SR 7.0 million (2018: SR 9.8 million) to statutory reserve.

21 DIVIDENDS

During the current year, the shareholders have approved, declared and paid dividend of SR 67.95 million (for the year ended 31 December 2018: SR 67.73 million).

22 EARNINGS PER SHARE

The basic and diluted earnings per share has been computed by dividing net profit for the year by the weighted number of shares outstanding during the year.

	2019	2018 Restated
Profit for the year (SR '000)	**70,010**	61,155
Weighted average number of ordinary shares (in thousands)	**90,600**	90,496
Basic and diluted earnings per share (SR)	**0.77**	0.68

23 SERVICING RIGHTS UNDER AGENCY ARRANGEMENTS

The Company enters into arrangements for servicing Ijara receivables and ijara mowsofa fi athema receivables on behalf of third parties. Such receivables represent instruments initially originated by the Company and subsequently sold to third party. The Company acts in the sole capacity of servicing agent represented by activities such as collection of Ijara receivables rentals on behalf of the principals. No credit risk is assumed by the Company throughout the period of servicing.

During the year, the Company sold its financing portfolio amounted to SR 235.68 million (31 December 2018: SR 104.65 million) and entered into an agency contract for servicing these receivables. The outstanding balance of portfolio, which the Company is servicing as at 31 December 2019 amounted to SR 307.38 Million (2018: SR 104.36 Million)

Assumptions involved in the calculation of servicing rights under agency arrangements are as follows:

Discount rates:
Discount rate represents the current market assessment of the risks specific to the Company, taking into consideration Company's incremental borrowing rate.

Servicing costs:
The Company assesses the cost of servicing including staff and other costs, to arrive at a base rate per contract.

Early settlement rate:
The Company calculates early settlement rate as a percentage of total portfolio sold to SRC to the portfolio which is settled till the end of the year.

24 GENERAL AND ADMINISTRATIVE EXPENSES

	For the year ended 31 December	
	2019	2018
Salaries and employee related cost	**53,937**	45,923
Information technology expenses	**4,448**	2,259
Professional fee	**2,863**	3,134
Board fee and expenses	**2,530**	2,461
Rent	**2,044**	3,241
Travelling expenses	**1,139**	1,122
Maintenance expenses	**937**	687
Communication	**750**	756
Others	**9,756**	3,958
	78,404	63,541

(SR'000)

25 SELLING AND MARKETING EXPENSES

	For the year ended 31 December	
	2019	2018
Salaries and outsourcing cost	**5,825**	5,724
Insurance	**3,975**	2,545
Marketing expenses	**3,343**	3,200
	13,143	11,469

26 RELATED PARTY TRANSACTIONS AND BALANCES

The related parties of the Company include the shareholders and their affiliated entities, Subsidiary and certain key management personnel. In the ordinary course of its activities, the Company transacts business with its related parties on mutually agreed terms. Key management personnel represent the Chief Executive and his direct reports.

In addition to the related party transactions and balances disclosed elsewhere in these financial statements, significant transactions and balances arising from transactions with related parties are as follows:

Nature of transactions	Name of related party and relationship	Amounts of transactions for the year ended 31 December	
		2019	2018
Borrowing cost	The Saudi Investment Bank (shareholder)	**27,146**	23,529
Rent expense	Saudi Orix Leasing (affiliate)	**1,592**	1,592
Security and other expenses	Saudi Orix Leasing (affiliate)	**224**	210
Arrangement fee	Alistithmar Capital (affiliate)	**--**	268
PRS (profit) or cost received / paid	The Saudi Investment Bank (shareholder)	**(213)**	(157)
Salaries and benefits	Key management personnel	**10,773**	13,390
Board meeting fees and other expenses	Board members	**2,530**	2,461

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26 RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

Nature of balances and names of related parties	Relationship	Balances 2019	2018
Bank balances:			
The Saudi Investment Bank	Shareholder	**7,340**	7,809
Due from related parties:			
Tharaa Real Estate Investment	Joint venture	**878**	3,009
Dar Wa Emar – Rahba	Joint venture	**2,923**	--
Alistithmar Capital	Affiliate	**1,775**	1,775
Borrowings:			
The Saudi Investment Bank	Shareholder	**615,821**	441,740
Notional amount of Profit Rate Swaps:			
The Saudi Investment Bank	Shareholder	**50,000**	50,000
Financing and advances:			
Key management personnel	Key management	**3,731**	4,005
Investment at FVOCI:			
SAIB Saraya Tower Real Estate Development Fund	Affiliate	**11,029**	11,591
Other receivables:			
Amlak International For Real Estate Development	Subsidiary	**305**	305
Receivable against initial public offering	Shareholders	**4,649**	3,281
Prepaid rent:			
Saudi Orix Leasing	Affiliate	**--**	398
Board meeting and other expenses payable			
Board members	Board members	**3,739**	1,276

27 FINANCIAL RISK MANAGEMENT

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles. The Board has appointed the Board Risk Management Committee, which has the responsibility to monitor the overall risk process within the Company.

The Risk Management Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits.

The Risk Management Committee is responsible for managing risk decisions and monitoring on risk levels and reports on a quarterly basis to the Board Risk Management Committee.

1) Credit risk

The Company manages exposure to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in lending activities that lead to Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables.

The Company assesses the probability of default of counterparties using internal rating mechanism. This is done for corporate and high net worth individuals only.

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27 FINANCIAL RISK MANAGEMENT (CONTINUED)

The Company attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Company's risk management policies are designed to identify, to set appropriate risk limits, and to monitor the risks and adherence to limits. Actual exposures against limits are monitored on regularly basis.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry.

The Company seeks to manage its credit risk exposure through diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific business.

Management monitors the market value of collateral obtained during its review of the adequacy of the impairment allowance for credit losses. The Company regularly reviews its risk management policies and systems to reflect changes in markets products and emerging best practice.

The carrying amount of financial assets represents the maximum credit exposure. The exposure to credit risk at the reporting date was on account of:

	2019	2018
Cash and cash equivalents	**7,843**	15,940
Murabaha receivables, net	**123,450**	108,256
Ijara receivables, net	**3,016,729**	2,902,822
Ijara Mawsofa Fi Athemmah receivables, net	**57,449**	79,662
Other receivables	**37,499**	15,168
	3,242,970	3,121,848

a) Credit quality analysis

The following table sets out information about the credit quality of financing and leasing financial assets as at 31 December. The amounts in the table represent gross carrying amounts.

2019:

	Stage 1 - 12 month ECL		
Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables	**Gross exposure**	**Impairment allowance for credit losses**	**Net exposure**
Grades 1 to 4-	**443,539**	**148**	**443,391**
Grades 5+ to 7-	**761,154**	**966**	**760,188**
Unrated	**797,169**	**2,959**	**794,210**
Total	**2,001,862**	**4,073**	**1,997,789**

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28 FINANCIAL RISK MANAGEMENT (CONTINUED)

	Stage 2 - Lifetime ECL (not credit impaired)		
Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables	**Gross exposure**	**Impairment allowance for credit losses**	**Net exposure**
Grades 1 to 4-	**64,933**	**78**	**64,855**
Grades 5+ to 7-	**719,489**	**22,618**	**696,871**
Unrated	**180,714**	**753**	**179,961**
Total	**965,136**	**23,449**	**941,687**

	Stage 3 - Lifetime ECL (credit impaired)		
Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables	**Gross exposure**	**Impairment allowance for credit losses**	**Net exposure**
Grades 1 to 4-	**22,057**	**2,899**	**19,158**
Grades 5+ to 7-	**71,664**	**9,265**	**62,399**
Grades 8 to 10	**189,920**	**39,814**	**150,106**
Unrated	**36,646**	**10,157**	**26,489**
Total	**320,287**	**62,135**	**258,152**

2018:

	Stage 1 - 12 month ECL		
Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables	Gross exposure	Impairment allowance for credit losses	Net exposure
Grades 1 to 4-	530,189	2,399	527,790
Grades 5+ to 7-	676,284	4,648	671,636
Unrated	785,622	1,631	783,991
Total	1,992,095	8,678	1,983,417

	Stage 2 - Lifetime ECL (not credit impaired)		
Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables	Gross exposure	Impairment allowance for credit losses	Net exposure
Grades 5+ to 7-	635,055	14,588	620,466
Unrated	174,922	1,223	173,700
Total	809,977	15,811	794,166

	Stage 3 - Lifetime ECL (credit impaired)		
Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables	Gross exposure	Impairment allowance for credit losses	Net exposure
Grades 5+ to 7-	116,345	17,280	90,065
Grades 8 to 10	228,857	42,468	186,389
Unrated	31,372	3,669	27,703
Total	376,574	63,417	313,157

29 FINANCIAL RISK MANAGEMENT (CONTINUED)

b. Amounts arising from ECL – Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and expert credit assessment.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the 12 month probability of default (PD) as at the reporting date; with
- the 12 month probability of default (PD) at the time of initial recognition of the exposure

Stage 1: When receivables are first recognised, the Company recognises an allowance based on 12months ECLs. Stage 1 receivables also include facilities where the credit risk has improved and the receivables has been reclassified from Stage 2.

Stage 2: When a receivables has shown a significant increase in credit risk since origination, the Company records an allowance for the Lifetime ECL. Stage 2 receivables also include facilities, where the credit risk has improved and the receivables has been reclassified from Stage 3.

Stage 3: Receivables considered credit-impaired. The Company records an allowance for the Lifetime ECL.

POCI: Purchased or originated credit impaired (POCI) assets are receivbales that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

i) Credit risk grades

The Company allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each corporate exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data.

Corporate exposures	All exposures
• Information obtained during annual review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality management, and senior management changes. • Actual and expected significant changes in business activities of the borrower.	• Payment record – this includes overdue status. • Requests for and granting of forbearance. • Existing and forecast changes in business, financial and economic conditions.

27 FINANCIAL RISK MANAGEMENT (CONTINUED)

ii) Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Company collects performance and default information about its credit risk exposures separately for the corporate and retail portfolios.

The Company analyses the relationships between its historical default rates and macro-economic factors. For both the corporate and retail portfolios, the key macro-economic indicator is oil price and GDP. The Company has formulated a view of the future direction of relevant economic variables for three different scenarios.

iii) Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Company's quantitative modelling, the remaining lifetime PD is determined to have increased significantly.

Using its expert credit judgment and, where possible, relevant historical experience, the Company may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

For the corporate and high net worth individual portfolio, apart from the increase in PD (2 rating downgrade or 6 sub-notch down) criteria and customers whose receivables are restructured due to deterioration in credit worthiness, as a backstop, the Company considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due.

For retails loans, apart from the customers whose receivables are restructured due to deterioration in credit worthiness, as a backstop, the Company considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due.

The Company monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:
- the criteria are capable of identifying significant increases in credit risk before an exposure is in default; and
- the criteria do not align with the point in time when an asset becomes 30 days past due;

iv) Modified financial assets

The contractual terms of a debt instrument may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing debt instrument whose terms have been modified may be derecognized and the renegotiated debt instrument recognized as a new debt instrument at fair value in accordance with the accounting policy.

When the terms of a financial asset are modified and the modification does not result in de-recognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- the risk of default at the reporting date (based on modified contractual terms); and
- the risk of default occurring at initial recognition (based on original, unmodified contractual terms)

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27 FINANCIAL RISK MANAGEMENT (CONTINUED)

The Company renegotiates receivables from customers in financial difficulties (referred to as 'forbearance activities') to maximize collection opportunities and minimize the risk of default. Under the Company's forbearance policy, receivable forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of recievable covenants. Both retail and corporate receivabels are subject to the forbearance policy. The Company Risk Committee regularly reviews reports on forbearance activities.

For financial assets modified as part of the Company's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Company's ability to collect profit and principal and the Company's previous experience of similar forbearance action. As part of this process, the Company evaluates the borrower's payment performance against the modified contractual terms and considers various behavioral indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired /in default. A customer needs to demonstrate consistently good payment behavior over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

v) Incorporation of forward looking information

The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from economic experts and consideration of a variety of forecast information, the Company formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by International Monetary Fund.

The base case represents a most-likely outcome and is aligned with information used by the Company for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes.

The Company has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used as at the yearend included the following ranges of key indicator:

Economic Indicators	**31 December 2019**	31 December 2018
Oil prices	**Upside 15%** **Base case 70%** **Downside 15%**	Upside 15% Base case 70% Downside 15%
Gross domestic product	**Upside 15%** **Base case 70%** **Downside 15%**	--

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 7 years.

27 FINANCIAL RISK MANAGEMENT (CONTINUED)

vi) Definition of 'Default'

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to Company in full;
- the borrower is classified in default category as per internal credit grade (applicable for corporate and high net woth individuals); or
- the borrower is past due more than 90 days on any material credit obligation to Company.

In assessing whether a borrower is in default the Company considers indicators that are:

- qualitative- e.g. breaches of covenant;
- quantitative- e.g. overdue status and non-payment on another obligation of the same issuer to Company;

The definition of default largely aligns with that applied by Company for regulatory capital purposes.

vii) Measurement of ECL

The key inputs into the measurement of ECL are the following risk estimates:

i. probability of default (PD);
ii. loss given default (LGD); and
iii exposure at default (EAD).

PD estimates are estimates at a certain date, which are calculated, based on statistical rating mechanism, and assessed using rating grades tailored for the corporate and high net worth individuals portfolios. These rating mechanisms are based on both quantitative and qualitative factors. If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD. Further the PD term structure is estimated considering the contractual maturities of exposures

LGD is the magnitude of the likely loss if there is a default. Company estimates LGD based on the history of recovery rates of claims against defaulted counterparties. LGD estimation considers the structure, any sale of collateral, and recovery costs of any collateral that is integral to the financial asset. Due to sparse historical defaults, the quantitative LGD estimates has been adjusted for qualitative overlays based on Company's empirical loss experience and is subject to back testing.

EAD represents the expected exposure in the event of a default. Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, Company measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk. The maximum contractual period extends to the date at which Company has the right to require repayment.

For portfolios in respect of which Company has limited historical data or depending on the materiality of portfolio, qualitative adjustment is used to supplement any internally available data.

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27 FINANCIAL RISK MANAGEMENT (CONTINUED)

Loss allowance

The following table shows reconciliations from the opening to the closing balance of the gross receivables and loss allowance based on customer categories for the year ended 31 December 2019.

GROSS EXPOSURE - CORPORATE	**12 Month ECL**	**Lifetime ECL (not credit impaired)**	**Lifetime ECL (credit impaired)**	**Total**
Balance at 1 January, 2019	**795,159**	**324,685**	**308,973**	**1,428,817**
Transfer from 12 Month ECL	(151,455)	127,562	23,893	--
Transfer from Lifetime ECL (not credit impaired)	8,284	(82,620)	74,336	--
Transfer from Lifetime ECL (credit impaired)	--	14,149	(14,149)	--
Net repayment received during the year	(298,347)	(56,129)	(52,724)	(407,200)
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the year	237,355	39,127	5,328	281,810
Balance at 31 December, 2019	**590,996**	**366,774**	**345,657**	**1,303,427**

LOSS ALLOWANCE - CORPORATE	**12 Month ECL**	**Lifetime ECL (not credit impaired)**	**Lifetime ECL (credit impaired)**	**Total**
Balance at 1 January, 2019	6,735	13,003	57,151	76,889
Transfer from 12 Month ECL	(1,298)	899	399	--
Transfer from Lifetime ECL (not credit impaired)	197	(2,103)	1,906	--
Transfer from Lifetime ECL (credit impaired)	--	1,922	(1,922)	--
Net re-measurement of loss allowance	(3,711)	(10,578)	4,307	(9,982)
Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables that have been derecognized during the year	(1,595)	(1,110)	(5,288)	(7,993)
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the year	526	66	532	1,124
Balance at 31 December, 2019	**857**	**2,098**	**57,084**	**60,038**

GROSS EXPOSURE - HIGH NET WORTH INDIVIDUALS	**12 Month ECL**	**Lifetime ECL (not credit impaired)**	**Lifetime ECL (credit impaired)**	**Total**
Balance at 1 January, 2019	**411,314**	**310,370**	**36,228**	**757,912**
Transfer from 12 Month ECL	(99,467)	84,114	15,353	--
Transfer from Lifetime ECL (not credit impaired)	2,841	(71,540)	68,699	--
Transfer from Lifetime ECL (credit impaired)	-	18,841	(18,841)	--
Net repayment received during the year	(183,082)	(147,025)	(1,803)	(331,910)
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the year	482,092	53,500	7,737	543,329
Balance at 31 December, 2019	**613,698**	**248,260**	**107,373**	**969,331**

(SR'000)

27 FINANCIAL RISK MANAGEMENT (CONTINUED)

LOSS ALLOWANCE - HIGH NET WORTH INDIVIDUALS	12 Month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Balance at 1 January, 2019	312	1,585	2,597	4,494
Transfer from 12 Month ECL	(97)	71	26	--
Transfer from Lifetime ECL (not credit impaired)	2	(307)	305	--
Transfer from Lifetime ECL (credit impaired)	--	497	(497)	--
Net re-measurement of loss allowance	(117)	(587)	11,723	11,019
Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables that have been derecognized during the year	(40)	(1,038)	(201)	(1,279)
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the year	197	210	1,108	1,515
Balance at 31 December, 2019	**257**	**431**	**15,061**	**15,749**

GROSS EXPOSURE - RETAIL	12 Month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Balance at 1 January, 2019	**785,622**	**174,923**	**31,372**	**991,917**
Transfer from 12 Month ECL	(88,940)	88,940	--	--
Transfer from Lifetime ECL (not credit impaired)	29,628	(43,447)	13,819	--
Transfer from Lifetime ECL (credit impaired)	882	6,585	(7,467)	--
Net repayment received during the year	(368,312)	(66,988)	(1,891)	(437,191)
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the year	438,290	20,701	810	459,801
Balance at 31 December, 2019	**797,170**	**180,714**	**36,643**	**1,014,527**

LOSS ALLOWANCE - RETAIL	12 Month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Balance at 1 January, 2019	1,631	1,223	3,669	6,523
Transfer from 12 Month ECL	(176)	176	--	--
Transfer from Lifetime ECL (not credit impaired)	195	(275)	80	--
Transfer from Lifetime ECL (credit impaired)	11	108	(119)	--
Net re-measurement of loss allowance	1,418	(251)	6,340	7,507
Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables that have been derecognized during the year	(526)	(374)	(10)	(910)
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the year	407	145	198	750
Balance at 31 December, 2019	**2,960**	**752**	**10,158**	**13,870**

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27 FINANCIAL RISK MANAGEMENT (CONTINUED)

The following table shows reconciliations from the opening to the closing balance of the gross receivables and loss allowance based on customer categories for the year ended 31 December 2018.

GROSS EXPOSURE – CORPORATE	**12 Month ECL**	**Lifetime ECL (not credit impaired)**	**Lifetime ECL (credit impaired)**	**Total**
Balance at 1 January, 2018	787,404	224,964	385,171	1,397,539
Transfer from 12 Month ECL	(127,194)	107,938	19,256	--
Transfer from Lifetime ECL (not credit impaired)	62,489	(74,573)	12,084	--
Transfer from Lifetime ECL (credit impaired)	--	69,287	(69,287)	--
Net repayment received during the year	(269,835)	(73,029)	(38,251)	(381,115)
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the year	342,295	70,098	--	412,393
Balance at 31 December, 2018	795,159	324,685	308,973	1,428,817

LOSS ALLOWANCE – CORPORATE	**12 Month ECL**	**Lifetime ECL (not credit impaired)**	**Lifetime ECL (credit impaired)**	**Total**
Balance at 1 January, 2018	7,303	5,733	67,164	80,200
Transfer from 12 Month ECL	(1,962)	1,765	197	--
Transfer from Lifetime ECL (not credit impaired)	1,139	(1,716)	577	--
Transfer from Lifetime ECL (credit impaired)	-	12,371	(12,371)	--
Net re-measurement of loss allowance	(1,961)	(9,183)	5,249	(5,895)
Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables that have been derecognized during the year	(923)	(262)	(3,665)	(4,850)
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the year	3,139	4,295	-	7,434
Balance at 31 December, 2018	**6,735**	**13,003**	**57,151**	**76,889**

GROSS EXPOSURE - HIGH NET WORTH INDIVIDUALS	**12 Month ECL**	**Lifetime ECL (not credit impaired)**	**Lifetime ECL (credit impaired)**	**Total**
Balance at 1 January, 2018	545,936	93,263	127,015	766,214
Transfer from 12 Month ECL	(112,900)	112,900	--	--
Transfer from Lifetime ECL (not credit impaired)	7,308	(16,701)	9,393	--
Transfer from Lifetime ECL (credit impaired)	--	98,992	(98,992)	--
Net repayment received during the year	(194,515)	(42,188)	(1,188)	(237,891)
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the period	165,485	64,104	--	229,589
Balance at 31 December, 2018	411,314	310,370	36,228	757,912

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27 FINANCIAL RISK MANAGEMENT (CONTINUED)

LOSS ALLOWANCE - HIGH NET WORTH INDIVIDUALS	**12 Month ECL**	**Lifetime ECL (not credit impaired)**	**Lifetime ECL (credit impaired)**	**Total**
Balance at 1 January, 2018	451	405	3,510	4,366
Transfer from 12 Month ECL	(87)	87	--	--
Transfer from Lifetime ECL (not credit impaired)	10	(68)	58	--
Transfer from Lifetime ECL (credit impaired)	--	2,603	(2,603)	--
Net re-measurement of loss allowance	(94)	(1,603)	1,632	(65)
Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables that have been derecognized during the year	(105)	(19)	--	(124)
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the year	137	180	--	317
Balance at 31 December, 2018	**312**	**1,585**	**2,597**	**4,494**

GROSS EXPOSURE – RETAIL	**12 Month ECL**	**Lifetime ECL (not credit impaired)**	**Lifetime ECL (credit impaired)**	**Total**
Balance at 1 January, 2018	831,486	152,527	24,300	1,008,313
Transfer from 12 Month ECL	(77,222)	74,671	2,551	--
Transfer from Lifetime ECL (not credit impaired)	35,449	(50,152)	14,703	--
Transfer from Lifetime ECL (credit impaired)	--	6,253	(6,253)	--
Net repayment received during the year	(215,115)	(38,130)	(4,688)	(257,933)
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the period	211,024	29,753	760	241,537
Balance at 31 December, 2018	785,622	174,923	31,372	991,917

LOSS ALLOWANCE - RETAIL	**12 Month ECL**	**Lifetime ECL (not credit impaired)**	**Lifetime ECL (credit impaired)**	**Total**
Balance at 1 January, 2018	1,667	1,419	352	3,438
Transfer from 12 Month ECL	(162)	157	5	--
Transfer from Lifetime ECL (not credit impaired)	406	(571)	165	--
Transfer from Lifetime ECL (credit impaired)	--	89	(89)	--
Net re-measurement of loss allowance	(478)	37	3,271	2,830
Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables that have been derecognized during the year	(274)	(129)	(50)	(453)
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the year	472	221	15	708
Balance at 31 December, 2018	**1,631**	**1,223**	**3,669**	**6,523**

d. Collateral

The company in the ordinary course of lending activities hold collaterals as security to mitigate credit risk in the Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables. These collaterals mostly include real estate property. The collaterals are managed against relevant exposures at their net realizable values. For financial assets that are credit impaired at the reporting period, quantitative information about the collateral held as security is needed to the extent that such collateral mitigates credit risk.

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27 FINANCIAL RISK MANAGEMENT (CONTINUED)

2) Market rate risk

a) Profit rate risk

Profit rate risk is the uncertainty of future earnings resulting from fluctuations in profit rates. The risk arises when there is a mismatch in the assets and liabilities which are subject to profit rate adjustment within a specified period. The most important source of such rate risk is the Company's borrowings and financing activities, where fluctuations in profit rates, if any, are reflected in the results of operations.
The following table depicts the sensitivity to a reasonable possible change in profit rates, with other variables held constant, on the Company's statement of profit or loss. The sensitivity of the income is the effect of the assumed changes in profit rates on the net commission income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at yearend. All the exposures are monitored and analysed in major currency concentrations and relevant sensitivities are disclosed in SR thousands.

	2019		2018	
	Change in basis points	**Impact on net profit**	Change in basis points	Impact on net profit
Saudi Riyals	**+100**	**(8,274)**	+100	8,415
Saudi Riyals	**-100**	**8,274**	-100	(8,415)

The Company manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market profit rates on its financial position and cash flows. The table below summarises the Company's exposure to profit rate risks. Included are the Company's assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates. The Company is exposed to special profit rate risk as a result of mismatches or gaps in the amounts of assets and liabilities that mature or re-price in a given period. The Company manages this risk through diversification of funding resources and use of derivative financial instruments.

The table below summarizes the Company's exposure to profit rate risks:

	Profit bearing					
31 December 2019	**Within 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Non-profit bearing**	**Total**
Assets						
Cash and cash equivalents	--	--	--	--	7,876	**7,876**
Investments	--	--	--	--	11,922	**11,922**
Murabaha receivables, net	6,888	21,026	66,677	28,859	--	**123,450**
Ijara receivables, net	187,007	1,092,669	1,283,958	453,095	--	**3,016,729**
Ijara Mawsofa Fi Athemmah receivables, net	814	52,966	476	3,193		**57,449**
Positive fair value of derivatives	--	--	--	--	71	**71**
Other receivables	--	--	--	--	37,499	**37,499**
Total assets	194,709	1,166,661	1,351,111	485,147	57,368	**3,254,996**
Liabilities						
Negative fair value of derivatives	--	--	--	--	3,621	**3,621**
Borrowings	1,638,188	390,097	52,147	--	--	**2,080,432**
Other liabilities	334	1,661	8,444	11,544	116,145	**138,128**
Total liabilities	1,638,522	391,758	60,591	11,544	119,766	**2,222,181**
Gap	**(1,443,813)**	**774,903**	**1,290,520**	**473,603**	**(62,398)**	**1,032,815**
Cumulative Gap	**(1,443,813)**	**(668,910)**	**621,610**	**1,095,213**	**1,032,815**	

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27 FINANCIAL RISK MANAGEMENT (CONTINUED)

The table below summarizes the Company's exposure to profit rate risks

	Profit bearing					
31 December 2018	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-profit bearing	Total
Assets				-		
Cash and cash equivalents	-	-	-	-	15,965	15,965
Investments	-	-	-	-	12,484	12,484
Murabaha receivables, net	10,784	33,581	60,467	3,424	-	108,256
Ijara receivables, net	463,296	1,099,035	1,217,080	123,411	-	2,902,822
Ijara Mawsofa Fi Athemmah receivables, net	24,730	54,932	-	-	-	79,662
Positive fair value of derivatives	-	-	-	-	1,087	1,087
Other receivables	-	-	-	-	15,168	15,168
	498,810	1,187,548	1,277,547	126,835	44,704	3,135,444
Liabilities						
Borrowings	1,530,360	372,814	90,958	-	-	1,994,132
Other liabilities	-	-	-	-	75,550	75,550
Total Liabilities	1,530,360	372,814	90,958	-	75,550	2,069,682
Gap	(1,031,550)	814,734	1,186,589	126,835	(30,846)	1,065,762
Cumulative Gap	(1,031,550)	(216,816)	969,773	1,096,608	1,065,762	

b) Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company is subject to fluctuations in foreign exchange rates in the normal course of its business. The Company did not undertake significant transactions in currencies other than Saudi Riyals and US Dollars. And as US Dollars is pegged with Saudi Riyals; therefore, Company does not have any currency risk in these transactions.

3) Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately. Management monitors the maturity profile to ensure that adequate liquidity is maintained.

a) Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Company's financial liabilities at year ends based on contractual undiscounted repayment obligations. The contractual maturities of financial liabilities have been determined based on the remaining period at the statement of financial position date to the contractual maturity date.

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27 FINANCIAL RISK MANAGEMENT (CONTINUED)

2019	**Fixed maturity** Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	**No fixed maturity**	**Total**
Other liabilities	**79,207**	**55,268**	**3,653**	**--**	**--**	**138,128**
Borrowings	**217,099**	**568,542**	**1,447,045**	**--**	**--**	**2,232,686**
Total	**296,304**	**623,810**	**1,450,698**	**--**	**--**	**2,370,814**

2018	Fixed maturity Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
Other liabilities	42,080	39,884	3,794	--	--	85,758
Borrowings	246,140	592,930	1,186,584	--	--	2,025,654
Total	288,220	632,814	1,190,378	--	--	2,111,412

The table below shows an analysis of assets and liabilities, analysed according to when they are expected to be recovered or settled.

2019	**Fixed maturity** Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	**No fixed maturity**	**Total**
Assets						
Cash and cash equivalents	**--**	**--**	**--**	**--**	**7,876**	**7,876**
Investments	**--**	**11,029**	**--**	**--**	**893**	**11,922**
Murabaha receivables, net	**6,888**	**21,026**	**66,677**	**28,859**	**--**	**123,450**
Ijara receivables, net	**200,873**	**438,636**	**1,527,319**	**849,901**	**--**	**3,016,729**
Ijara Mawsofa Fi Athemmah receivables, net	**913**	**2,593**	**12,105**	**41,838**	**--**	**57,449**
Positive fair value of derivatives	**71**	**--**	**--**	**--**	**--**	**71**
Prepayments and other assets	**47,191**	**79,244**	**1,212**	**--**	**--**	**127,647**
Property and equipment	**1,468**	**4,403**	**25,398**	**15,142**	**13,650**	**60,061**
Total assets	**257,404**	**556,931**	**1,632,711**	**935,740**	**22,419**	**3,405,205**
Liabilities						
Account payables and other accruals	**84,056**	**60,119**	**3,654**	**--**	**-**	**147,829**
Negative fair value of derivatives	**--**	**--**	**3,621**	**--**	**--**	**3,621**
Zakat and income tax payable	**15,441**	**5,389**	**13,550**	**--**	**--**	**34,380**
Borrowings	**196,633**	**518,277**	**1,365,522**	**--**	**--**	**2,080,432**
Employees benefits	**--**	**--**	**--**	**--**	**13,666**	**13,666**
Total liabilities	**296,130**	**583,785**	**1,386,347**	**--**	**13,666**	**2,279,928**

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27 FINANCIAL RISK MANAGEMENT (CONTINUED)

	Fixed maturity				No fixed	Total
2018	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	maturity	Restated
Assets						
Cash and cash equivalents	--	--	--	--	15,965	15,965
Investments	--	- -	11,591	- -	893	12,484
Murabaha receivables, net	10,784	33,581	60,467	3,424	--	108,256
Ijara receivables, net	209,087	548,136	1,523,132	622,466	--	2,902,822
Ijara Mawsofa Fi Athemmah receivables, net	1,742	5,172	24,195	48,553	--	79,662
Positive fair value of derivatives	--	--	1,087	--	--	1,087
Prepayments and other assets	29,664	75,968	1,048	305	--	106,985
Investment in joint ventures	3,961	3,961	--	--	--	7,922
Property and equipment	480	1,440	9,534	2,734	13,650	27,838
Deferred tax asset	--	--	--	--	516	516
Total assets	255,718	668,258	1,631,054	677,482	31,024	3,263,536
Liabilities						
Account payables and other accruals	45,243	43,049	3,794	--	--	92,086
Zakat and income tax payable	--	3,249	--	--	33,541	36,790
Borrowings	231,004	578,732	1,184,396	--	--	1,994,132
Employees benefits	--	--	-	--	13,618	13,618
Total liabilities	276,247	625,030	1,188,190	--	47,159	2,136,626

28 FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial assets consist of cash and cash equivalents, investments, derivatives, Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivable and other receivable. Financial liabilities consist of borrowings, payables and derivatives.

The following table shows the carrying amount and fair values of financial assets and financial liabilities where fair value is different from carrying value or where the financial assets and liabilities are recorded at fair value, including their levels in the fair value hierarchy.

		Fair value			
2019	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets:					
Murabaha receivables, net	**123,450**	**--**	**--**	**123,748**	**123,748**
Ijara receivables, net	**3,016,729**	**--**	**--**	**3,045,905**	**3,045,905**
Ijara mawsofa fi athemmah receivables, net	**57,449**	**--**	**--**	**63,692**	**63,692**
Investments	**11,922**	**--**	**--**	**11,922**	**11,922**
Positive fair value of derivatives	**71**	**--**	**--**	**71**	**71**
Financial liabilities:					
Negative fair value of derivatives	**3,621**	**--**	**--**	**3,621**	**3,621**

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28 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

2018	Carrying value	Fair value Level 1	Level 2	Level 3	Total
Financial assets:					
Murabaha receivables, net	108,256	--	--	109,757	109,757
Ijara receivables, net	2,902,822	--	--	2,900,387	2,900,387
Ijara Mawsofa Fi Athemmah receivables, net	79,662	--	--	79,662	79,662
Investments	12,484	--	--	12,484	12,484
Positive fair value of derivatives	1,087	--	-	1,087	1,087

The valuation of fixed rate Murabaha receivables, Ijara receivables and Ijara Mowsofa Fi Athemmah receivables are estimated using contractual cash flows discounted at latest yield, which is the contracted profit rate for recent transactions. Input into the discounted cash flow techniques includes recent yields and contractual cash flows.

Management assessed that the carrying amount of other financial instruments largely approximate fair value due to either short-term maturities or re-pricing of the special commission on those instruments and these financial instruments are classified as level 3.

There have been no transfers to and from any levels during the year.

29 CAPITAL ADEQUACY

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain a strong capital base. Capital adequacy ratios as monitored and measured by the management below measure capital adequacy by comparing the Company's eligible capital with its statement of financial position, commitments and notional amount of derivatives, if any, at a weighted amount determined by management to reflect their relative risk.

	2019		2018	
	Total capital ratio %	**Tier I capital ratio %**	Total capital ratio %	Tier I capital ratio %
Capital adequacy ratio	**43.16**	**43.30**	44.46	44.43

30 COMMITMENTS AND CONTINGENCIES

Financing facilities approved but not utilised:
The Company has facilities approved but not utilised, indicative offers issued which are under consideration of the customers as of the reporting date which have the potential to convert into financing amounting to SR 218 million (31 December 2018: SR 96 million).

Zakat and income tax:
As at 31 December 2019, the Company has an outstanding guarantee of SR Nil (31 December 2018: SR 82.9 million) submitted in favour of GAZT for zakat and income tax appeal filed by the Company.

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30 COMMITMENTS AND CONTINGENCIES (CONTINUED)

VAT (notes 11 and 14):
During the year, the GAZT issued an assessment on VAT returns for the period from January 2018 to January 2019 and claimed an amount of SR 19.9 million. The differences mainly resulted due to transaction of buy and lease back and first housing deals made before issuance of mechanism by MOH and GAZT. Breakup of the claim is as follow:

Category	**Assessment received**
VAT variances	9,195
Wrong filing charge	3,486
Late payment Charge	7,250
Total	**19,931**

The Company paid SR 9.2 million in respect of VAT variances and issued a bank guarantee in respect of remaining amount. The Company has filed an appeal clarifying its position on the assessment received from GAZT. The appeal is still under review of GAZT. The Company believes it is unlikely that the above position of GAZT will be upheld; however, the Company recorded SR 6.07 million to cover the expected and potential claims up till 31 December 2019 as its best estimate of additional VAT liability.

Operating lease:

	2018
Maturity Analysis – Contractual undiscounted cash flows	
Less than one year	3,095
One to five years	14,598
More than five years	12,856
Total undiscounted operating lease as at 31 December	30,549

31 SEGMENT INFORMATION

The Company objective is to provide financing for real estate leases in the Kingdom of Saudi Arabia. All assets, liabilities and operations as reflected in the statement of financial position and statement of comprehensive income belongs to the real estate financing segment.

For management purposes, the Company is organised into the following primary business segments:

Retail
These represents finance products granted to small and medium sized businesses and individuals.

Corporate
These represents financing products granted to corporate, high net worth individuals and institutional customers. Investments in joint ventures are managed by the Corporate segment.

Head office
Head office is responsible for managing the surplus liquidity of the Company through short term market placements. It also provides support services to the business functions.

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31 SEGMENT INFORMATION (CONTINUED)

The Company's total assets and liabilities at 31 December 2019 and 2018 and its total operating income, expenses and net income for the years then ended are as follows:

	Retail	Corporate	Head office	Total
2019				
Income	**96,537**	**196,089**	**-**	**292,626**
Expenses	**64,516**	**126,051**	**-**	**190,567**
Segment profit / (loss)	**32,021**	**70,038**	**-**	**102,059**
Total assets	**1,014,165**	**2,323,031**	**68,009**	**3,405,205**
Total liabilities	**652,968**	**1,505,869**	**121,091**	**2,279,928**
2018				
Income	82,466	183,290	-	265,756
Expenses	56,410	111,733	-	168,143
Segment profit / (loss)	26,056	71,557	-	97,613
Total assets	990,895	2,227,236	44,889	3,263,020
Total liabilities	618,583	1,404,377	113,666	2,136,626

Below is the reconciliation of revenue and expenses from financial statements to operating segment note:

	For the year ended 31 December	
	2019	2018
Income		
Total income from Murabaha, Ijara and Ijara Mawsofa Fi Athemmah	**296,345**	267,084
Fee expenses	**(2,843)**	(1,582)
Other (loss) / income	**(562)**	226
Arrangement fee	**--**	268
Share in net (loss) / income from joint ventures	**(314)**	(240)
Total income – as per operating segment note.	**292,626**	265,756
Expenses		
Borrowing costs	**(93,767)**	(88,087)
Depreciation and write off	**(3,501)**	(3,044)
General and administrative expenses	**(78,404)**	(66,802)
Selling and marketing expenses	**(13,143)**	(8,208)
Impairment loss on property and equipment	**--**	(2,100)
Impairment charge for credit losses, net	**(1,752)**	98
Total expense – as per operating segment note.	**(190,567)**	(168,143)

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32 PROSPECTIVE CHANGE IN INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Company has chosen not to early adopt the following new standards and amendments to IFRS which have been issued but not yet effective for the Company's accounting years beginning on January 1, 2019.

- Amendments to References to Conceptual Framework in IFRS Standards
- Definition of Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Sale or Contribution of Assets between an Investor and its associate or Joint Venture (Amendments to IFRS 10 and IAS 28)
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)
- Insurance contracts (IFRS 17)

The Company does not anticipate that these will have a significant impact on the Company's financial statements.

33 COMPARATIVE INFORMATION

The presentation and classification of the following items in these financial statements are amended to ensure comparability with the current year.

Statement of profit or loss	As disclosed previously	Current presentation	Adjustment
General and administrative expenses - salaries and employee related cost	49,184	45,923	(3,261)
Selling and marketing expenses – salaries and outsourcing cost	2,463	5,724	3,261

In the current year, the Company changed the reclassification of staff cost of sales personnel from general and administrative expenses to salaries and outsourcing cost. Accordingly financial statement caption of outsourcing cost has been changed to salaries and outsourcing cost.

34 SUBSEQUENT EVENT

There were no subsequent events after the statement of financial position date which require adjustments to/or disclosure in the financial statements.

35 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on _________ 1441H (corresponding to __February 2020).