

BIDAYA HOME FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
Condensed Interim Financial Statements
(Unaudited)
For the three-month and nine-month periods ended
30 September 2018



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Independent auditors' report on review of condensed interim financial statements

**To: The Shareholders of
Bidaya Home Finance Company
(A Saudi Closed Joint Stock Company)**

Introduction

We have reviewed the accompanying 30 September 2018 condensed interim financial statements of Bidaya Home Finance Company ("the Company"), which comprises:

- the condensed statement of financial position as at 30 September 2018;
- the condensed statement of profit or loss and other comprehensive income for the three-month and nine-month periods ended 30 September 2018;
- the condensed statement of changes in equity for the nine-month period ended 30 September 2018;
- the condensed statement of cash flows for the nine-month period ended 30 September 2018; and
- the notes to the condensed interim financial statements.

Management is responsible for the preparation and presentation of these condensed interim financial statements in accordance with International Accounting Standard 34, 'Interim Financial Reporting' ("IAS 34") as modified by Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax. Our responsibility is to express a conclusion on these condensed interim financial statements based on our review.

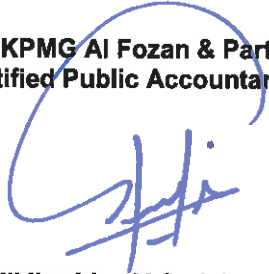
Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" that is endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 September 2018 condensed interim financial statements of Bidaya Home Finance Company are not prepared, in all material respects, in accordance with IAS 34 as modified by SAMA for the accounting of zakat and income tax.

**For KPMG Al Fozan & Partners
Certified Public Accountants**



Khalil Ibrahim Al Sedais
License No: 371

Al Riyadh: 19 Safar 1440H
Corresponding to: 28 October 2018



BIDAYA HOME FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
CONDENSED STATEMENT OF FINANCIAL POSITION
(Saudi Arabian Riyals in '000)
As at 30 September 2018

	<u>Notes</u>	30 September 2018 (Unaudited)	31 December 2017 (Audited)
<u>ASSETS</u>			
Cash and cash equivalents	6	24,566	21,653
Investments held at fair value through other comprehensive income (FVOCI)		893	--
Held-for-trading investments		--	50,013
Ijara receivables, net	7	1,227,461	872,814
Deposits, prepayments and other receivables		10,207	12,894
Property and equipment, net		6,161	6,590
Intangible assets, net		2,997	3,060
Total assets		1,272,285	967,024
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>			
Short-term financing	9	30,000	100,000
Debt securities	10	250,000	--
Accrued expenses and other current liabilities	8	162,529	32,959
Accrued Zakat		200	14,181
Provision for employees' end of service benefits		1,605	1,198
Total liabilities		444,334	148,338
Share capital	12	900,000	900,000
Accumulated losses		(72,049)	(81,314)
Shareholders' equity		827,951	818,686
Total liabilities and shareholders' equity		1,272,285	967,024

The accompanying notes from 1 to 20 form an integral part of these condensed interim financial statements.

BIDAYA HOME FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

**CONDENSED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME (UNAUDITED)**
(Saudi Arabian Riyals in '000)

For the three-month and nine-month periods ended 30 September 2018

	<i>Notes</i>	For the three-month period ended 30 September		For the nine-month period ended 30 September	
		2018	2017	2018	2017
REVENUE					
Ijara income		19,300	10,600	49,961	25,804
Servicing income		21	--	21	--
Fee income		5,476	805	8,417	1,346
Total revenue		24,797	11,405	58,399	27,150
OPERATING EXPENSES					
General and administrative expenses	13	12,976	10,602	31,873	29,020
Selling and marketing expenses	14	3,638	4,919	10,071	13,116
Depreciation		382	405	709	1,070
Finance charges		2,659	--	8,009	--
Amortization		256	220	1,210	610
Impairment charge for credit losses		(936)	549	3,287	3,994
Total operating expenses for the period		18,975	16,695	55,159	47,810
Operating profit / (loss) for the period		5,822	(5,290)	3,240	(20,660)
Special commission income		--	--	--	447
Realized gain on sale of available-for-sale investments		--	1,970	--	6,073
Realized gain on sale of held-for-trading investments		--	--	1,129	--
Net profit / (loss) for the period		5,822	(3,320)	4,369	(14,140)
OTHER COMPREHENSIVE INCOME					
<i>Items that are or may be reclassified to profit or loss</i>					
Net changes in fair value of available-for-sale investments		--	496	--	3,441
Total comprehensive income / (loss) for the period		5,822	(2,824)	4,369	(10,699)
Earnings / (loss) per share	16	0.06	(0.04)	0.05	(0.16)

The accompanying notes from 1 to 20 form an integral part of these condensed interim financial statements.

BIDAYA HOME FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
CONDENSED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

(Saudi Arabian Riyals in '000)

For the nine-month period ended 30 September 2018

	<u>Share capital</u>	<u>Fair value reserve on available-for-sale investments</u>	<u>Accumulated losses</u>	<u>Total</u>
Balance as at 1 January 2018	900,000	--	(81,314)	818,686
Impact of adoption of new standards at 1 January 2018 (note 3)	--	--	3,693	3,693
Restated balance at 1 January 2018	900,000	--	(77,621)	822,379
Net profit for the period	--	--	4,369	4,369
Other comprehensive income	--	--	--	--
Total comprehensive income for the period	--	--	4,369	4,369
Zakat reversal for prior period	--	--	1,403	1,403
Zakat charge for the period - net (note 11)	--	--	(200)	(200)
Balance at 30 September 2018	900,000	--	(72,049)	827,951
Balance as at 1 January 2017	900,000	2,916	(62,012)	840,904
Net loss for the period	--	--	(14,140)	(14,140)
Other comprehensive loss	--	(2,632)	--	(2,632)
Total comprehensive loss for the period	--	(2,632)	(14,140)	(16,772)
Zakat charge for the period (note 11)	--	--	(2,855)	(2,855)
Balance at 30 September 2017	900,000	284	(79,007)	821,277

The accompanying notes from 1 to 20 form an integral part of these condensed interim financial statements.

BIDAYA HOME FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
CONDENSED STATEMENT OF CASH FLOW (UNAUDITED)

(Saudi Arabian Riyals in '000)

For the nine-month period ended 30 September 2018

	For the nine-month period ended 30 September	
<i>Note</i>	2018	2017
Cash flows from operating activities:		
Net profit / (loss) for the period	4,369	(14,140)
<i>Non-cash adjustments to reconcile net profit / (loss) for the period to net cash used in operating activities:</i>		
Depreciation	709	1,070
Amortization	1,210	610
Finance charges	8,009	--
Provision for employees' end of service benefits	407	405
Impairment charge for credit losses	3,287	3,994
Realized gain on sale of available-for-sale investment	--	(6,073)
Realized gain on sale of held-for-trading investments	(1,129)	--
	16,862	(14,134)
<i>(Increase) / decrease in operating assets</i>		
Ijara receivables	(354,241)	(386,473)
Deposits, prepayments and other receivables	2,687	(3,095)
<i>Increase in operating liabilities</i>		
Accrued expenses and other current liabilities	127,237	3,630
	(207,455)	(400,072)
Finance charges paid	(5,676)	--
Zakat paid	(12,778)	--
Net cash used in operating activities	(225,909)	(400,072)
Cash flows from investing activities		
Purchase of property and equipment	(280)	(296)
Purchase of intangible assets	(1,147)	(1,546)
Proceeds from disposal of held-for-trading investments	350,886	--
Purchase of FVOCI investments	(893)	--
Purchase of held-for-trading investments	(299,744)	--
Purchase of available-for-sale investments	--	(378,300)
Proceeds from available-for-sale investments	--	377,583
Net cash generated from / (used in) investing activities	48,822	(2,559)
Cash flows from financing activities		
Repayment of short-term financing	(220,000)	--
Proceeds from short-term financing	150,000	--
Proceeds from issuance of debt securities	250,000	--
Net cash generated from financing activities	180,000	--
Net increase / (decrease) in cash and cash equivalents	2,913	(402,631)
Cash and cash equivalents at beginning of the period	21,653	430,561
Cash and cash equivalents at end of the period	24,566	27,930

The accompanying notes from 1 to 20 form an integral part of these condensed interim financial statements.

BIDAYA HOME FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
(Saudi Arabian Riyals in '000)

For the three-month and nine-months period ended 30 September 2018

1. THE COMPANY AND THE NATURE OF OPERATIONS

Bidaya Home Finance Company (the "Company") is a Saudi closed joint stock company established under the Regulations for Companies in the Kingdom of Saudi Arabia. The Company operates under Commercial Registration No. 1010432564 issued in Riyadh on 25 Jumada II 1436H (corresponding to 14 April 2015). The Company was granted a full license by Saudi Arabian Monetary Authority ("SAMA") to operate as a mortgage finance company vide license number 41/ع ش /201512 dated 3 Rabi I 1437H (corresponding to 14 December 2015).

The objectives of the Company are to provide home financing to consumers for the purchase of homes (new homes, ready homes and off plan construction homes) and providing finance to home owners against security of their homes.

The registered office of the Company with its postal address is as follows:

Bidaya Home Finance Company
20th Floor of Ibdeh Tower
King Fahad Road
P.O. Box 93898
Riyadh 11683
Kingdom of Saudi Arabia

2. BASIS OF PREPARATION

2.1 *Statement of compliance*

The condensed interim financial statements of the Company have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' ("IAS 34") as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax, which requires, adoption of all International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") except for the application of International Accounting Standard (IAS) 12 - "Income Taxes" and IFRIC 21 - "Levies" so far as these relate to zakat and income tax. As per the SAMA Circular no. 381000074519 dated 11 April 2017 and subsequent amendments through certain clarifications relating to the accounting for zakat and income tax ("SAMA Circular"), the Zakat and Income tax are to be accrued on a quarterly basis through shareholders' equity under retained earnings.

These condensed interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's audited financial statements for the year ended 31 December 2017.

2.2 *Basis of measurement*

These condensed interim financial statements have been prepared under the historical cost convention, modified to include the measurement at fair value of held-for-trading investments.

2.3 *Functional and presentation currency*

These condensed interim financial statements have been presented in Saudi Arabian Riyals (SR), as it is the functional currency of the Company. Except as indicated, the financial information presented in SR has been rounded-off to the nearest thousand.

2.4 *Order of liquidity*

Assets and liabilities in the statement of financial position are presented in the order of liquidity.

BIDAYA HOME FINANCE COMPANY
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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
(Saudi Arabian Riyals in '000)

For the three-month and nine-month period ended 30 September 2018

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

Effective 1 January 2018, the Company has adopted IFRS 15 - Revenue from Contracts with Customers and IFRS 9 - Financial Instruments. Accounting policies for these new standards are disclosed in note 4 of these condensed interim financial statements. Significant judgments and estimates relating to IFRS 9 adoption are also disclosed in the note 4 of these condensed interim financial statements. The impact of the adoption of these standards is explained below:

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and is effective for annual periods commencing on or after 1 January 2018. IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes previously issued revenue guidance, which was found currently across several Standards and Interpretations within IFRS. It established a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The adoption of this standard has no material impact on the Company's condensed interim financial statements.

Adoption of IFRS 9 – Financial instruments

The Company has adopted IFRS 9 - Financial Instruments issued in July 2014 with a date of initial application of 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 - Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

The key changes to the Company's accounting policies resulting from its adoption of IFRS 9 are summarized below.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost ("AC"), fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). This classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognized in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- The remaining amount of change in the fair value is presented in profit or loss.

For an explanation of how the Company classifies financial assets and liabilities under IFRS 9, see respective section of significant accounting policies.

IFRS 9 classification & measurement requirements do not apply to the Company as Ijara receivables continue to be subjected to the classification requirements as per IAS 17-*Leases*. However, Ijara receivables recognised by the Company are subject to the de-recognition and impairment requirements of IFRS 9.

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

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model ("ECL"). IFRS 9 requires the Company to record an allowance for ECLs for all loans and other debt financial assets not held at FVTPL. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset. Under IFRS 9, credit losses are recognized earlier than under IAS 39. For an explanation of how the Company applies the impairment requirements of IFRS 9, see respective section of significant accounting policies.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- Comparative periods have not been restated. A difference in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:
 - i. The determination of the business model within which a financial asset is held.
 - ii. The designation and revocation of previous designated financial assets and financial liabilities as measured at FVTPL.

It is assumed that the credit risk has not increased significantly for those debt securities which carry low credit risk at the date of initial application of IFRS 9.

a) Financial assets and financial liabilities

i) *Classification of financial assets and financial liabilities on the date of initial application of IFRS 9*

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Company's financial assets and financial liabilities as at 1 January 2018.

	Original classification under IAS 39/ <u>IAS 17</u>	New classification under <u>IFRS 9</u>	Original carrying value under <u>IAS 39</u>	New carrying value under <u>IFRS 9</u>
SAR in '000'				
Financial assets				
Cash and cash equivalents	Loans and receivables	Amortised cost	21,653	21,653
Held-for-trading investments	Held-for-trading	FVTPL	50,013	50,013
Ijara receivables, net*	Leases	N/A	872,814	876,507
Deposits and other receivables	Loans and receivables	Amortized cost	10,359	10,359
			954,839	958,532
Financial liabilities				
Short term financing	Amortised cost	Amortised cost	100,000	100,000
Accrued expenses and other current liabilities	Amortised cost	Amortised cost	19,537	19,537
			119,537	119,537

*Ijara receivables continue to be subject to the classification and measurement requirement as per IAS 17 - Leases.

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

ii) *Reconciliation of carrying amounts under IAS 39 to carrying amounts under IFRS 9 at the adoption of IFRS 9*

The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018.

	IAS 39 carrying amount as at 31 December 2017	Re- measurement	IFRS 9 carrying amount as at 1 January 2018
	SAR in '000'		
Financial assets			
Ijara receivables			
Opening balance	882,541	--	882,541
Impairment allowance for credit losses (Note 1)	(9,727)	3,693	(6,034)
Closing balance	872,814	3,693	876,507

Note 1: Impairment allowance is decreased due to change from incurred to expected credit loss (ECL) model.

There have been no reclassification and remeasurement in case of other than the above mentioned financial assets and financial liabilities of the Company due to adoption of IFRS 9 as at 1 January 2018.

Impact on retained earnings and other reserves

	Accumulated losses
Closing balance under IAS 39 (31 December 2017)	(81,314)
Reclassifications under IFRS 9	--
Recognition of expected credit losses under IFRS 9 on Ijara receivables	3,693
Opening balance under IFRS 9 (1 January 2018)	(77,621)

iii) *The following table provides carrying value of financial assets and financial liabilities in the statement of financial position:*

	30 September 2018		
	FVTPL	Amortized cost	Total carrying amount
	SAR in '000'		
Financial assets			
Cash and cash equivalents	--	24,566	24,566
Investments held at FVOCI	893	--	893
Ijara receivables, net	--	1,227,461	1,227,461
Deposits and other receivables	--	6,404	6,404
Total financial assets	893	1,258,431	1,259,324
Financial liabilities			
Short-term financing	--	30,000	30,000
Debt securities	--	250,000	250,000
Accrued expenses and other current liabilities	--	151,716	151,716
Total financial liabilities	--	431,716	431,716

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

	31 st December 2017			
	Trading	Loans and receivables	Other amortized cost	Total carrying amount
	SAR in '000'			
Financial assets				
Cash and cash equivalents	--	21,653	--	21,653
Held-for-trading investment	50,013	--	--	50,013
Ijara receivables, net	--	--	872,814	872,814
Deposits and other receivables	--	10,359	--	10,359
Total financial assets	50,013	32,012	872,814	954,839
Financial liabilities				
Short-term financing	--	--	100,000	100,000
Accrued expenses and other current liabilities	--	--	19,537	19,537
Total financial liabilities	--	--	119,537	119,537

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies, estimates and assumptions used in the preparation of these condensed interim financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2017 except for the policies explained below. Based on the adoption of new standards as explained in note 3, the following accounting policies are applicable effective 1 January 2018 replacing / amending or adding to the corresponding accounting policies set out in annual financial statements for the year ended 31 December 2017.

IFRS 9 classification & measurement requirements do not apply to the Company as Ijara receivables continue to be subjected to the classification requirements as per IAS 17–Leases. However, Ijara receivables recognised by the Company are subject to the de-recognition and impairment requirements of IFRS 9.

POLICIES APPLICABLE FROM 1 JANUARY 2018

A. Classification of financial assets

On initial recognition, a financial asset is classified as measured at: amortized cost, FVOCI or 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 interest on the principal amount outstanding.

Financial Asset at FVOCI

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

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 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 interest on the principal amount outstanding.

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 investment-by-investment basis.

The Company does not have any debt instrument classified as FVOCI. During the period, the Company acquired equity instruments and classified its investment in equity instruments as fair value through OCI.

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 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.

B. 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.

Before 1 January 2018, all the financial liabilities were initially recognize at fair value less transaction costs. Subsequently financial liabilities were recognized at amortized cost

C. Derecognition

i. 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 2018, 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 interest 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.

ii. Financial liabilities

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

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4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Modifications of financial assets and financial liabilities

i. 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.

The Company does not have any financial assets modified during the period and thus this does not apply to the Company

ii. 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.

E. Impairment

The Company recognizes loss allowances for ECL on the Ijara receivables financial instruments that are not measured at FVTPL.

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);
- 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;

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4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Impairment (continued)

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.
- 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 interest rate of the existing financial asset.

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 an Ijara receivable by the Company on terms that the Company would not consider otherwise;

An Ijara receivable 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, an Ijara receivable 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 amortized cost and Ijara receivables are presented in statement of financial position as a deduction of gross carrying amount of the assets.

Write-off

Ijara 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.

Collateral valuation

To mitigate its credit risks on financial assets, the Company seeks to use collateral, where possible. The collateral comes in various forms promissory notes and title ownership till the completion of the repayments. Collateral, unless repossessed, is not recorded on the Company's statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum at inception.

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4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Impairment (continued)

Collateral repossessed

The Company's accounting policy under IFRS 9 remains the same as it was under IAS 39. The Company's 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's policy.

Revenue recognition

Ijara income is 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 fees and points paid or received 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.

Appraisal fees and management fees and commission fees earned for Ijara receivables are recognised as an adjustment to the effective profit rate on these receivables. When it is unlikely that receivables will continue to be held by the Company, such fees are recognised in the statement of profit or loss in the period in which the receivables no longer continue to exist in the financial statements.

Critical accounting judgements, estimates and assumptions

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Such judgements, estimates, and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. Significant areas where management has used judgements, estimates and assumptions are as follows:

- i. Impairment of Ijara receivables*
- ii. Fair value measurement (note 18)*
- 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 its business for the foreseeable future. Additionally, management is not aware of any material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern. Therefore, these financial statements have been prepared on a going concern basis.

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5. STANDARDS ISSUED BUT NOT YET EFFECTIVE

The Company has not early adopted IFRS 16 – Leases, which is effective for annual periods beginning on or after 1 January 2019.

6. CASH AND CASH EQUIVALENTS

	30 September 2018 (Unaudited)	31 December 2017 (Audited)
Cash in hand	10	10
Cash at bank – current accounts	24,556	21,643
	24,566	21,653

7. IJARA RECEIVABLES, NET

	30 September 2018 (Unaudited)	31 December 2017 (Audited)
Gross Ijara receivables	<i>Note</i> 2,245,348	1,505,007
Less: Unearned income	(1,008,566)	(622,466)
	<i>7.1</i> 1,236,782	882,541
Less: Impairment allowance for credit losses	(9,321)	(9,727)
Ijara receivables, net	1,227,461	872,814

7.1 The credit quality of Ijara receivables is as follows

	30 September 2018 (Unaudited)	31 December 2017 (Audited)
Neither past due nor impaired	914,066	807,809
Past due but not impaired	243,373	54,338
Impaired	79,343	20,394
	1,236,782	882,541

The fair value of collateral of impaired Ijara receivables held by the Company based on the appraisal at the time of origination was SR 101.02 million (31 December 2017: 24.38 million).

As at 30 September 2018, the ageing of past due but not impaired installments and the related balances of Ijara receivables are as follows:

	30 September 2018 (Unaudited)		31 December 2017 (Audited)	
	Ijara receivables	Past due instalments	Ijara receivables	Past due instalments
01 – 30 days	123,509	1,891	29,240	207
31 – 60 days	88,343	1,797	17,238	338
61 – 90 days	31,521	1,243	7,860	159
Total	243,373	4,931	54,338	704

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7 IJARA RECEIVABLES, NET (CONTINUED)

7.2 The maturity of Ijara receivables based on contractual maturity is as follows:

	30 September 2018 (Unaudited)			
	Not later than one year	Later than one year but not later than five years	Later than five years	Total
Ijara receivables	194,741	520,381	1,530,226	2,245,348
Unearned income	(76,792)	(212,811)	(718,963)	(1,008,566)
	117,949	307,570	811,263	1,236,782
Impairment allowance for credit losses				(9,321)
				<u>1,227,461</u>
	31 December 2017 (Audited)			
	Not later than one year	Later than one year but not later than five years	Later than five years	Total
Ijara receivables	88,683	265,883	1,150,441	1,505,007
Unearned income	(53,866)	(146,405)	(422,195)	(622,466)
	34,817	119,478	728,246	882,541
Impairment allowance for credit losses				(9,727)
				<u>872,814</u>

The Company's implicit rate of return on Ijara receivables ranges between approximately 4.84% to 12% per annum (31 December 2017: 4.84% to 12% per annum). Term of Ijara receivables ranges from five to thirty years.

8. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	30 September 2018 (Unaudited)	31 December 2017 (Audited)
Accounts payables	12,914	6,225
Down payment against Ijara financing	10,085	3,089
Directors' remuneration and meeting expenses payable	1,421	1,988
Deferred management fee	--	1,915
Deferred commission income	9,938	11,507
Accrued salaries and employee related benefits	--	311
Payable to Ministry of Housing (MOH)	8.1 123,583	--
Other accrued expenses	4,588	7,924
	<u>162,529</u>	<u>32,959</u>

8.1 This represents balance payable to MOH in relation to purchase of properties which are financed to Ijara receivables customers.

9. SHORT-TERM FINANCING

These include borrowings obtained from financial institutions based in the Kingdom of Saudi Arabia and are secured by the assignment of proceeds from certain Ijara receivables and pledge of title deeds of underlying real estate assets. These borrowings are revolving in nature and carry markup at commercial market rates and are repayable during the year 2018.

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10. DEBT SECURITIES

During the nine-month period ended 30 September 2018, the Company issued non-convertible sukuk amounting to SR 250 million (2017: Nil) carrying profit at fixed rates. These sukuk will mature on 5 October 2019.

11. ZAKAT

During the nine-month period ended 30 September 2018, the Company filed its zakat declarations up till 31 December 2017 and acknowledgment certificates have been obtained.

During the nine-month period ended 30 September 2018, the Company has made a zakat provision of SR 0.2 million (30 September 2017: 2.855 million).

12. SHARE CAPITAL

As at 30 September 2018, the authorised, issued and fully paid-up share capital of the Company was SR 900 million (31 December 2017: SR 900 million) divided into 90 million shares (31 December 2017: SR 90 million) with a nominal value of SR 10 each. As at 30 September 2018 and 2017, the details of share capital are as follows:

<u>Name of shareholders</u>	<u>Number of shares 000's</u>	<u>Holding Percentage (%)</u>	<u>Amount SR'000</u>
Public Investment Fund	20,000	22.2	200,000
Islamic Corporation for Development	18,000	20.0	180,000
Rashed Al Rashed and Sons	15,300	17.0	153,000
Mohammad Yousef Naghi Motors	10,000	11.1	100,000
Arab Investment Company	10,000	11.1	100,000
Al Othaim Holding	10,000	11.1	100,000
Al Khereji Investments	3,200	3.6	32,000
Manafea Holding Company	2,000	2.2	20,000
Jawahir Investment Company	1,500	1.7	15,000
	<u>90,000</u>	<u>100</u>	<u>900,000</u>

13. GENERAL AND ADMINISTRATIVE EXPENSES

	For the nine-month period ended 30 September	
	<u>2018</u>	<u>2017</u>
Salaries and employee related expenses	18,811	16,934
Professional fee	4,173	2,386
Rent and premises related expenses	1,937	2,176
Directors' remuneration and meeting expenses	1,308	3,273
IT expenses	2,928	1,610
Other expenses	2,716	2,641
	<u>31,873</u>	<u>29,020</u>

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14. SELLING AND MARKETING EXPENSES

	For the nine-month period ended 30 September	
	2018	2017
Advertising and marketing expenses	2,245	5,277
Salaries and employee related expenses	4,117	5,933
Financed property evaluation and Takaful	3,709	1,906
	10,071	13,116

15. RELATED PARTY TRANSACTIONS AND BALANCES

The related parties of the Company include the shareholders and their affiliated entities 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 includes Chief Executive Officer (“CEO”) and the personnel directly reporting to CEO.

The significant transactions with related parties during the period and the related balances are as follows:

<u>Name of related party</u>	<u>Nature of relationship</u>	<u>Nature of transaction</u>	For the nine-month period ended 30 September	
			2018	2017
Islamic Corporation for Development Money Market Fund	A fund managed by shareholder	Sale of available-for-sale investments	--	(78,845)
Naif Saleh Ali Al Hamdan	Director	Ijara financing	1,680	--

<u>Name of related party</u>	<u>Nature of relationship</u>	<u>Nature of balance</u>	As at 30 September 2018	As at 31 December 2017
			(Unaudited)	(Audited)
Saudi Finance Lease Registry Company	Common key Management	Expenses incurred on behalf of the Company	40	40
		Investment held at FVOCI	893	893
Naif Saleh Ali Al Hamdan	Director	Ijara receivable	1,674	--

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15 RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

The amount of compensations recorded in favor of or paid to the Board of Directors and the executive management personnel during the period are as follows:

<u>Name of related parties</u>	<u>Nature of transactions</u>	For the nine-month ended 30	
		September	2017
Key Management Personnel	Salaries and benefits	5,013	5,181
	Provision for end of service benefits	192	190
	Directors' remuneration and meeting expenses	1,308	3,273

<u>Name of related parties</u>	<u>Nature of balance</u>	As at 30	As at 31
		September	December
Key Management Personnel	Provision for end of service benefits	712	520
	Directors' remuneration and meeting expenses payable	1,421	1,988

16. EARNINGS / LOSS PER SHARE

Earnings / loss per share for the period is calculated by dividing net profit / (loss) for the period by the weighted average number of shares (90 million shares) in issue during the period.

17. COMMITMENTS

The Company has facilities approved but not utilized, indicative offers issued which are under consideration of the customers and due diligence in progress as of the reporting date which have the potential to convert into financing, amount to SR 117.44 million (31 December 2017: SR 7.96 million).

In addition, the Company has leased its head office building and Riyadh branch for a period of 5 years. Outstanding non-cancelable lease and other commitments expire as follows:

	30	31 December
	September	2017
	2018	2017
	(Unaudited)	(Audited)
Within one year	3,220	3,220
One to three years	1,896	2,638
	5,116	5,858

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18. FAIR VALUES OF FINANCIAL INSTRUMENTS

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 principle of the most advantageous market must be accessible to by the Company.

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of cash and cash equivalents, held-for-trading investments, Ijara receivables, and deposits and other receivables. Financial liabilities consist of short-term financing, debt securities and accrued expenses and other current liabilities.

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) 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.

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

	30 September 2018 (Unaudited)				
	Carrying value	Level 1	Level 2	Level 3	Total
<u>Financial assets measured at fair value</u>					
Investments	893	--	--	893	893
<u>Financial assets not measured at fair value</u>					
Cash and cash equivalents	24,566	24,566	--	--	24,566
Ijara receivables, gross	1,236,782	--	--	683,548	683,548
Deposits and other receivables	6,404	--	--	6,404	6,404
	<u>1,268,645</u>	<u>24,566</u>	<u>--</u>	<u>690,845</u>	<u>715,411</u>
<u>Financial liabilities not measured at fair value</u>					
Short-term-financing	30,000	--	--	30,000	30,000
Debt securities	250,000	--	--	250,000	250,000
Accrued expenses and other current liabilities	151,716	--	--	151,716	151,716
	<u>431,716</u>	<u>--</u>	<u>--</u>	<u>431,716</u>	<u>431,716</u>

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18. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

	31 December 2017 (Audited)				
	Carrying value	Level 1	Level 2	Level 3	Total
<u>Financial assets measured at fair value</u>					
Held-for-trading investment	50,013	--	50,013	--	50,013
31 December 2017					
	Carrying value	Level 1	Level 2	Level 3	Total
<u>Financial assets not measured at fair value</u>					
Cash and cash equivalents	21,653	21,653	--	-	21,653
Ijara receivables, gross	882,541	--	--	630,455	630,455
Deposits and other receivables	10,359	--	--	10,359	10,359
	<u>914,553</u>	<u>21,653</u>	<u>--</u>	<u>640,814</u>	<u>662,467</u>
	Carrying value	Level 1	Level 2	Level 3	Total
<u>Financial liabilities not measured at fair value</u>					
Short-term-financing	100,000	--	--	100,000	100,000
Accrued expenses and other current liabilities	19,537	--	--	19,537	19,537
	<u>119,537</u>	<u>--</u>	<u>--</u>	<u>119,537</u>	<u>119,537</u>

Held-for-trading investment was in the units of mutual funds which were valued based on net assets value reported by the Fund Manager.

Investment classified as fair value through OCI is kept at cost as the cost is not materially difference from fair value.

The fair value of Ijara receivables is based on actual cash flows discounted by average period end internal rate of return and is not evidenced by a quoted price in an active market for an identical asset or based on a valuation technique that uses only data from observable markets, hence the fair value of Ijara receivables is classified under level 3.

During the nine-month period ended 30 September 2018, there were no transfers into or out of Level 3.

19. 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 is responsible for managing risk decisions and monitoring on risk levels and reports on a quarterly basis to the Board of Directors.

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 Ijara receivables

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.

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19. FINANCIAL RISK MANAGEMENT (CONTINUED)

i. Credit quality analysis

The following table sets out information about the credit quality of Ijara receivables measured at amortized cost as at 30 September 2018. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

	12 month ECL		
	Stage 1 Gross carrying amounts	12 Month ECL	Stage 1 Net carrying amounts
Ijara receivables			
Unrated	1,037,574	1,272	1,036,302
Total	1,037,574	1,272	1,036,302

	Lifetime ECL (not credit impaired)		
	Stage 2 Gross carrying amounts	Lifetime ECL (not credit impaired)	Stage 2 Net carrying amounts
Ijara receivables			
Unrated	119,864	3,860	116,005
Total	119,864	3,860	116,005

	Lifetime ECL (credit impaired)		
	Stage 3 Gross Carrying amounts	Lifetime ECL (credit impaired)	Stage 3 Net Carrying amounts
Ijara receivables			
Unrated	79,343	4,189	75,153
Total	79,343	4,189	75,153

ii. 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 including forward-looking information.

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

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

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19. FINANCIAL RISK MANAGEMENT (CONTINUED)

iii. Generating the term structure of PD

The Company employs statistical models to analyze historical performance and default information to generate PD estimates including how these estimates are expected to change with the passage of time. Statistical models are employed for the Company's retail exposures, whereby the primary inputs are days past due (DPD). In addition, the Company incorporates forward-looking information into generating forward-looking PDs. Based on external actual and forecasted data, the Company's analysis takes into account the identification and calibration of relationships between default rates and country-specific macroeconomic information.

iv. Determining whether credit risk has increased significantly

The Company considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due except in case of rebuttal. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

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;
- the criteria do not align with the point in time when an asset becomes 30 days past due.

The Company classifies its financial instruments into stage 1, stage 2 and stage 3, based on the applied impairment methodology, as described below: -

Stage 1: for financial instruments where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, the Company recognises an allowance based on the 12-month ECL and interest is calculated on the gross carrying amount of asset (i.e. without deduction of credit allowances. All accounts at origination would be classified as Stage 1.

Stage 2: for financial instruments where there has been a significant increase in credit risk since initial recognition but they are not credit-impaired (i.e. there is no objective evidence of impairment), the Company recognises an allowance for the lifetime ECL.

With respect to portfolio held by Company, all the exposures are moved to stage 2 where the customer is Days Past Due (DPD) 30 days or more (Principal or interest payments) as of 30 September 2018.

Stage 3: for credit-impaired (i.e. there is objective evidence of impairment at reporting date) financial instruments, the Company recognises the lifetime ECL. Default identification process i.e. DPD of 90 more (obligors already defaulted) is used as stage 3.

v. Modified financial assets

The contractual terms of a Ijara receivables (loan) 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 loan whose terms have been modified may be derecognized and the renegotiated loan recognized as a new loan 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:

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19. FINANCIAL RISK MANAGEMENT (CONTINUED)

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

The revised terms usually include extending the maturity, changing the timing of profit payments.

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 the Company in full, without recourse by the Company to actions such as realizing security; or
- the borrower is past due more than 90 days on any material credit obligation to the Company.

vii. 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 the Company Management Committee and economic experts and consideration of a variety of external actual and 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 or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and monetary authorities in the Kingdom and selected private sector and academic forecasters.

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. Periodically, the Company carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

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 30 September 2018 included the following ranges of key indicators.

- Unemployment rates
- Interest rates
- GDP growth
- House prices etc.
- Oil prices

viii. Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

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

These parameters are generally derived from internally developed statistical models using historical data. They are adjusted to reflect forward-looking information as described above.

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19. FINANCIAL RISK MANAGEMENT (CONTINUED)

viii. Measurement of ECL (continued)

PD estimates are estimates at a certain date, which are calculated based on statistical models (loss rate estimation method), and assessed to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. If a counterparty or exposure migrates between DPD buckets, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures.

LGD is the magnitude of the likely loss if there is a default. Due to the size of the Company's portfolio, there is insufficient historical LGD data to derive statistically reliable LGD estimates. Therefore, the Company benchmarks LGD to regulator guidelines (i.e. 50% for its unsecured exposures). The Company applied hair cut of 25% for Real Estate Collateral.

Going forward, subject to availability of adequate recovery data, the Company shall revise the LGD estimation methodology in line with IFRS 9 requirements.

Where the exposure is 100% or more collateralized (i.e. the value of the collateral after haircut is equal to or greater than the exposure), the Company imposes a LGD floor (recovery cap) of 2% for Real Estate. Floor is determined based on management judgment.

EAD represents the expected exposure in the event of a default. The 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.

Subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Company measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Company considers a longer period. The maximum contractual period extends to the date at which the Company has the right to require repayment of loan.

Collateral

The Company in the ordinary course of lending activities hold collaterals as security to mitigate credit risk in the Ijara receivables. These collaterals mostly include promissory notes and real estate title. The collaterals are held mainly against Ijara receivables and 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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19. FINANCIAL RISK MANAGEMENT (CONTINUED)

Loss allowance

The following table shows reconciliations from the opening to the closing balance of the loss allowance by class of financial instruments.

	30 September 2018			Total
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	
	<i>SAR in '000'</i>			
Ijara receivables				
Balance at 1 January	1,240	2,333	2,461	6,034
Transfer to 12-month ECL	161	(88)	(73)	--
Transfer to lifetime ECL not credit –impaired	(867)	874	(7)	--
Transfer to lifetime ECL- credit impaired	(226)	--	226	--
Net charge for the period	964	741	1,582	3,287
Balance as at 30 September	1,272	3,860	4,189	9,321

20. APPROVAL OF CONDENSED INTERIM FINANCIAL STATEMENTS

These condensed interim financial statements were approved for issue by the Board of Directors on 28 October 2018 (corresponding to 19 Safar 1440) through resolution by circulation.