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

KPMG

KPMG Al Fozan & Partners
Certified Public Accountants
Riyadh Front, Airport road
P O Box 92876
Riyadh 11663
Kingdom of Saudi Arabia

Telephone +966 11 874 8500
Fax +966 11 874 8600
Internet www.kpmg.com/sa

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

Independent Auditor's Report

To the Shareholder of Saudi Real Estate Refinance Company

Opinion

We have audited the financial statements of **Saudi Real Estate Refinance Company** ("the Company"), which comprise the statement of financial position as at 31 December 2019, the statements of 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 applicable requirements of 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.

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Independent Auditor's Report

To the Shareholder of Saudi Real Estate Refinance 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 **Saudi Real Estate Refinance Company** ("the Company").

For KPMG Al Fozan & Partners
Certified Public Accountants

Khalil Ibrahim Al Sedais
License No: 371

Al Riyadh, 22 Rajab 1441H
Corresponding to: 17 March 2020

SAUDI REAL ESTATE REFINANCE COMPANY
(A Saudi Closed Joint Stock Company)

STATEMENT OF FINANCIAL POSITION
As at 31 December 2019
(Saudi Arabian Riyals)

	Notes	**2019**	2018
ASSETS			
Cash and cash equivalents	*4*	**71,702,190**	880,632,477
Murabaha receivables, net	*5*	**777,776,212**	221,156,755
Ijara receivables, net	*6*	**1,383,000,372**	632,405,628
Prepayments and other assets	*7*	**1,850,527**	14,291,197
Property and equipment	*8*	**5,452,855**	2,920,521
Intangible assets	*9*	**6,142,595**	9,658,685
Right of use asset	*10*	**4,317,323**	--
TOTAL ASSETS		**2,250,242,074**	1,761,065,263
LIABILITIES AND EQUITY			
Trade and other payables	*11*	**20,355,960**	23,251,748
Debt securities issued	*12*	**758,303,559**	250,684,820
Lease liability	*10*	**3,922,203**	--
TOTAL LIABILITIES		**782,581,722**	273,936,568
Share capital	*13*	**1,500,000,000**	1,500,000,000
Accumulated losses		**(32,339,648)**	(12,871,305)
TOTAL EQUITY		**1,467,660,352**	1,487,128,695
TOTAL LIABILITIES AND EQUITY		**2,250,242,074**	1,761,065,263

The accompanying notes 1 to 19 form an integral part of these financial statements.

SAUDI REAL ESTATE REFINANCE COMPANY
(A Saudi Closed Joint Stock Company)

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2019
(Saudi Arabian Riyals)

	Notes	**2019**	**2018**
REVENUE			
Income from Murabaha receivables		**12,289,856**	22,399,685
Income from Ijara receivables		**68,799,368**	14,983,045
Special commission expense on debt securities issued		**(28,532,501)**	(684,820)
Net revenue for the year		**52,556,723**	36,697,910
OPERATING EXPENSES			
General and administrative expenses	*14*	**(75,213,953)**	(39,439,822)
Servicing fee		**(9,460,030)**	(3,113,571)
Advertising and marketing expenses		**(3,545,288)**	(846,940)
Provision for expected credit losses	*6.2*	**(4,134,796)**	(4,046,708)
Total operating expenses for the year		**(92,354,067)**	(47,447,041)
Operating loss for the year		**(39,797,344)**	(10,749,131)
NON-OPERATING INCOME			
Income from bank deposits		**20,329,001**	11,224,871
(Loss) / profit for the year		**(19,468,343)**	475,740
Other comprehensive income			
Other comprehensive income for the year		**--**	--
Total comprehensive (loss) / income for the year		**(19,468,343)**	475,740

The accompanying notes 1 to 19 form an integral part of these financial statements.

SAUDI REAL ESTATE REFINANCE COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2019
(Saudi Arabian Riyals)

	Share capital	Accumulated losses	Total
For the year ended 31 December 2019			
Balance at 1 January 2019	**1,500,000,000**	**(12,871,305)**	**1,487,128,695**
Total comprehensive loss for the year	--	**(19,468,343)**	**(19,468,343)**
Balance at 31 December 2019	**1,500,000,000**	**(32,339,648)**	**1,467,660,352**
For the year ended 31 December 2018			
Balance at 1 January 2018	1,500,000,000	(13,347,045)	1,486,652,955
Total comprehensive income for the year	--	475,740	475,740
Balance at 31 December 2018	1,500,000,000	(12,871,305)	1,487,128,695

The accompanying notes 1 to 19 form an integral part of these financial statements.

SAUDI REAL ESTATE REFINANCE COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF CASH FLOWS
For the year ended 31 December 2019
(Saudi Arabian Riyals)

	Notes	**2019**	2018
Cash flows from operating activities:			
Net (loss) / profit for the year		**(19,468,343)**	475,740
Adjustments for:			
Depreciation	*14*	**1,707,605**	516,238
Amortization	*14*	**3,516,090**	738,657
Special commission expense on debt securities issued		**28,532,501**	684,820
Provision for expected credit losses	*6.2*	**4,134,796**	4,046,708
		18,422,649	6,462,163
Changes in:			
Murabaha receivables		**(556,619,457)**	(121,088,725)
Ijara receivables		**(754,729,540)**	(636,452,336)
Prepayments and other assets		**12,440,670**	(13,902,662)
Trade and other payables		**(2,895,788)**	(48,005)
Net cash used in operating activities		**(1,283,381,466)**	(765,029,565)
Cash flows from investing activities:			
Acquisition of property and equipment	*8*	**(3,478,059)**	(624,706)
Acquisition of intangible assets	*9*	**--**	(1,400,023)
Net cash used in investing activities		**(3,478,059)**	(2,024,729)
Cash flows from financing activities:			
Proceeds from issuance of debt securities	*12*	**500,000,000**	250,000,000
Special commission paid on debt securities		**(20,910,762)**	--
Lease liability paid		**(1,160,000)**	--
Net cash generated from financing activities		**477,929,238**	250,000,000
Net decrease in cash and cash equivalents		**(808,930,287)**	(517,054,294)
Cash and cash equivalents at the beginning of the year		**880,632,477**	1,397,686,771
Cash and cash equivalents at the end of the year	*4*	**71,702,190**	880,632,477

The accompanying notes 1 to 19 form an integral part of these financial statements.

1. THE COMPANY AND THE NATURE OF OPERATIONS

Saudi Real Estate Refinance Company (the "Company" or "SRC") 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 ("CR") No.1010469391 issued in Riyadh on 28 Jumada II 1438H (corresponding to 27 March 2017). The Company was granted a full license by Saudi Arabian Monetary Authority (SAMA) to operate as a mortgage finance company with license number 201709/ش ع/48 dated 1 Muharram 1439H (corresponding to 21 September 2017).

The objective of the Company is to develop housing finance market in the Kingdom of Saudi Arabia by enabling financial institutions to offer long-term and short-term financing solutions to home buyers.

The registered office of the Company is as follows:

Saudi Real Estate Refinance Company
Ground Floor, Unit 09, Riyadh Front
Riyadh 13413 - 3727
Kingdom of Saudi Arabia

2. BASIS OF PREPARATION

a) Statement of compliance

These financial statements of the Company have been 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 Regulations for Companies in the Kingdom of Saudi Arabia and the By-laws of the Company.

The financial statements of the Company for the year ended 31 December 2018, were prepared in compliance with the International Financial Reporting Standards ("IFRS"), as modified by SAMA for the accounting of zakat and income tax (relating to the application of IAS 12 – "Income Taxes" and 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 finance 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 SOCPA (collectively referred to as "IFRS as endorsed in KSA").

Accordingly, the Company changed its accounting policy in line with International Accounting Standard ("IAS") 8 "Accounting Policies, Changes in Accounting Estimates and Errors" as disclosed in note 3.1(a). This change has not had any effect on the Company's profit for the year ended 31 December 2018.

Further, 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.

2. BASIS OF PREPARATION (CONTINUED)

b) Basis of measurement

These financial statements have been prepared under the historical cost convention.

c) Functional and presentation currency

These financial statements are presented in Saudi Arabian Riyals ("SAR"), which is also the Company's functional currency. The financial information presented in SAR is in full amounts, except as indicated.

d) Order of liquidity

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

e) Critical accounting judgements, estimates and assumptions

The preparation of financial statements in conformity with IFRS as endorsed in the KSA and other standards and pronouncements issued by SOCPA, 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 impairment of Ijara receivables (refer note 3(b)).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 The accounting policies, estimates and assumptions used in the preparation of these financial statements are consistent with those used in the preparation of the statutory financial statements for the year ended 31 December 2018 except for the policies mentioned in 3.1(a).

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

a) Change in accounting policies

(i) Change in accounting for Zakat

As a result of the issuance of the instructions from SAMA dated 18 July 2019, the basis of preparation has changed for the year ended 31 December 2019. Previously, Zakat and income tax were required to be 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 income. This change has had no impact on the Company's financial statement because the Company is not subject to Zakat in accordance with the regulations of the General Authority of Zakat and Tax (the "GAZT") as applicable in the Kingdom of Saudi Arabia, as it is wholly owned by the Public Investment Fund ("the Shareholder").

(ii) IFRS 16 Leases

The Company has adopted IFRS 16 Leases from 1 January 2019. There are also amendments to accounting standards that become applicable for annual reporting periods commencing on or after 1 January 2019. Adoption of IFRS 16 and other amendments did not require retrospective

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Change in accounting policies (continued)

(ii) IFRS 16 Leases (continued)

adjustments. However, there are changes in accounting policies due to adoption of IFRS 16 which are mentioned below:

IFRS 16 replaces 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 Involving the Legal Form of a Lease'.

IFRS 16 introduces a single, on-balance sheet accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Lessor accounting remains unchanged – i.e. lessors continue to classify leases as finance or operating leases.

Initial recognition

Assets and liabilities arising from a lease are initially measured on a present value basis.

i) Right-of-use assets are measured at cost comprising the following:
- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

ii) Lease liabilities include the net present value of the following lease payments:
- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the incremental borrowing rate, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Subsequent measurement

Right-of-use assets

The Company applies the cost model, and measures right-of-use assets at initial recognition value:

a) less any accumulated depreciation and any accumulated impairment losses; and
b) adjusted for any re-measurement of the lease liability for lease modifications.

Lease liability
After the commencement date, the Company measures the lease liability by:

a) Increasing the carrying amount to reflect interest on the lease liability;
b) Reducing the carrying amount to reflect the lease payments made; and
c) Re-measuring the carrying amount to reflect any re-assessment or lease modification.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Financial instruments

Financial instruments comprise of financial assets and financial liabilities.

Recognition
The Company recognizes a financial asset or a financial liability when it becomes a party to the contractual provisions of the instrument i.e. on trade date.

Financial assets
Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

On initial recognition, a financial asset is classified as measured at amortized cost, fair value through other comprehensive income (“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.

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:

- 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.

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 other comprehensive income (“OCI”). This election is made on an investment-by-investment basis.

The Company does not have any debt or equity instrument classified at FVOCI, and thus this does not apply to the Company.

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 after the Company changes its business model for managing financial assets.

The Company does not have any debt or equity instrument classified at FVTPL, and thus this does not apply to the Company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) *Financial instruments (continued)*

Business model assessment

The Company makes an assessment of 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 interest revenue, maintaining a particular interest 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 the classification of the remaining financial assets held in that business model.

Assessments whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is the fair value of the financial asset on initial recognition. 'Interest' 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 interest, 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 interest rates.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Financial instruments (continued)

Financial liabilities

The Company measures its financial liabilities at amortized cost. Amortized cost is calculated by taking into account any discount or premium on issued funds, and costs, which form an integral part of the effective interest 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 (Debt Instruments), 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.

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.

Financial liabilities

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

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 the statement of 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Financial instruments (continued)

Modifications of financial assets and financial liabilities (continued)

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 the statement of profit or loss.

Impairment

The Company recognizes loss allowances for expected credit losses (“ECL”) on its Murabaha receivables and Ijara receivables.

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

The Company considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

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;

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 profit rate of the existing financial asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Financial instruments (continued)

Impairment (continued)

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

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 or Murabaha receivable by the Company on terms that the Company would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

An Ijara or Murabaha 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

Financial assets 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.

c) Cash and cash equivalents

Cash and cash equivalents consist of cash in hand and cash with banks in current and saving accounts having maturity of less than 3 months.

d) Murabaha receivables

The Company enters into Murabaha financing arrangements with customers and records it as Murabaha receivables in the statement of financial position. Murabaha receivables are measured at amortised cost.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Murabaha receivables (continued)

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 receivables.

Murabaha financing is a non-derivative financial asset originated by the Company with fixed or determinable payments. These are recognised when cash is advanced to borrowers. These are derecognized when either borrower repays their obligations, or the Murabaha financings are sold or written off, or substantially all the risks and rewards of ownership are transferred.

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.

f) Intangible assets

Intangibles assets are initially recognized at cost less accumulated amortization and impairment losses, if any. Costs that are directly associated with identifiable software product controlled by the Company and have probable economic benefits beyond one year are recognized as intangible asset. Costs associated with maintaining computer software are recognized as an expense as and when incurred.

Amortization is charged to statement of profit or loss by applying the straight-line basis whereby the carrying amount of an asset is amortized over its estimated useful life to the Company unless such life is indefinite. The estimated useful life of intangible assets is 3 years. The estimated useful life and amortization method are reviewed at the end of each reporting period with the effect of any change in estimate accounted for on prospective basis.

g) 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. Expenditure for repair and maintenance are charged to the statement of profit or loss. Improvements that increase the value or materially extend the life of the related assets are capitalized.

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

	Years
Leasehold improvements	5
Office equipment and furniture	3 - 5
Computer and related accessories	3

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Trade and other payables

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

i) Provisions

Provisions are recognized 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.

j) Zakat

The Company is not subject to Zakat in accordance with the regulations of the General Authority of Zakat and Tax (the "GAZT") as applicable in the Kingdom of Saudi Arabia, as it is wholly owned by the Public Investment Fund ("the Shareholder"). The Company has also obtained specific exemption from the GAZT in this regard via letter number 20501/15/1439 dated 9 Jumadah II 1439 (corresponding to 25 February 2018). The Company, however, is required to submit its Zakat returns to the GAZT annually.

k) 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 until such reserve equals to 30% of the share capital. No amount has been transferred to the statutory reserve due to the accumulated losses as at the end of the reporting period.

l) Revenue recognition

Murabaha income

Murabaha income is recognized in the statement of 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 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 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.

Ijara (lease) income
Income from Ijara receivables is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Non-operating income

Interest income on bank deposits is recorded on an accrual basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m) Expenses

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

n) Foreign currencies

Transactions denominated in foreign currencies are recorded in Saudi Arabian 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 Statement of financial position date. All differences are taken to the statement of profit or loss. Gains or losses on foreign currency transactions are included in the statement of profit or loss during the period.

3.2 There are certain new standards and amendments to standards which are effective for annual period beginning on or after 1 January 2020. However, these have not been early adopted in the preparation of the Company's financial statement.

The management of the Company anticipates that the application of new standards and amendments in the future will not have a significant impact on the amounts reported.

4. CASH AND CASH EQUIVALENTS

	31 December 2019	31 December 2018
Cash in hand	**1,500**	303
Cash at bank:		
- Current accounts	**2,144,739**	37,811,554
- Call deposits (Note 4.1)	**69,555,951**	592,820,620
- Short-term placement (Note 4.2)	**--**	250,000,000
	71,702,190	880,632,477

4.1 This represent deposit with local bank and carry an average yield ranging from 1% - 2% per annum (31 December 2018: 1% - 2%).

4.2 This represent short-term placement with local bank and carry an average yield ranging from 2% - 3% per annum (31 December 2018: 2% - 3%).

5. MURABAHA RECEIVABLES, NET

	31 December 2019	31 December 2018
Gross Murabaha receivables	**782,112,316**	222,253,214
Less: Unearned income	**(4,336,104)**	(1,096,459)
Murabaha receivables, net	**777,776,212**	221,156,755

5.1 The Company has entered into facility agreements with various financing companies for short-term Murabaha financing facilities. Under these agreements' the Company has disbursed various amounts, totaling to SAR 775 million (31 December 2018: SAR 220 million) with term periods up to 6 months. Further, these drawdowns carry commission at agreed fixed rates. As at the year-end, the total Murabaha receivable is neither past due nor impaired.

5.2 The Company in the ordinary course of its Murabaha financing holds collaterals as security to mitigate credit risk which mainly includes promissory notes.

6. IJARA RECEIVABLES, NET

	Note	**31 December 2019**	31 December 2018
Gross Ijara receivables		**2,232,727,741**	958,929,464
Less: Unearned income		**(841,545,865)**	(322,477,128)
	6.3 & 6.4	**1,391,181,876**	636,452,336
Less: Expected credit losses		**(8,181,504)**	(4,046,708)
Ijara receivables, net		**1,383,000,372**	632,405,628

6.1 During the year, the Company purchased Ijara receivable portfolios from certain local banks and financing companies amounting to SAR 863,581,011 (31 December 2018: SAR 652,512,680).

Under the terms of purchase, the Company acquired rights, titles, interest and benefits relating to these Ijara receivables portfolios. As a result, the associated risk and rewards together with the control of these portfolios also passed onto the Company.

6.2 The following table shows reconciliation from the opening to the closing balance of the allowance for expected credit losses for Ijara receivables:

	31 December 2019			
	12 month ECL	**Lifetime ECL not Credit Impaired**	**Lifetime ECL Credit Impaired**	**Total**
Balance at 1 January	**2,698,619**	**686,508**	**661,581**	**4,046,708**
Net movement	**2,481,621**	**1,740,741**	**(87,566)**	**4,134,796**
Balance as at 31 December	**5,180,240**	**2,427,249**	**574,015**	**8,181,504**

	31 December 2018			
	12 month ECL	Lifetime ECL not Credit Impaired	Lifetime ECL Credit Impaired	Total
Balance at 1 January	-	-	-	-
Net movement	2,698,619	686,508	661,581	4,046,708
Balance as at 31 December	2,698,619	686,508	661,581	4,046,708

6.3 The credit quality of Ijara receivables, before impairment charge, is as follows:

	31 December 2019	31 December 2018
Neither past due nor impaired	**1,354,972,315**	615,654,000
Past due but not impaired		
- 31 - 60 days	**21,435,098**	13,683,897
- 61 - 90 days	**12,319,275**	1,412,135
Impaired	**2,455,188**	5,702,304
	1,391,181,876	636,452,336

These Ijara receivables are secured against mortgage of Ijara financed properties amounting to SAR 2,253,699,214 (31 December 2018: SAR 999,785,720). Valuation technique used to determine the fair value of collateral included a combination of the cost and market approach and is performed by independent external evaluators on the approved panel of the Company.

Title deeds of real estate properties financed by the Company are registered in the name of the Company.

6.4 This includes SAR 12.85 million (31 December 2018: SAR 5.76 million) paid as premium for purchase of Ijara receivables.

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6. IJARA RECEIVABLES, NET (CONTINUED)

6.5 The maturity of the Ijara receivables held as follows:

31 December 2019	**Not later than one year**	**Later than one year but not later than five year**	**Later than five years**	**Total**
Gross Ijara receivables	**172,879,809**	**801,905,244**	**1,257,942,688**	**2,232,727,741**
Unearned income				**(841,545,865)**
				1,391,181,876
Impairment allowance for credit losses				**(8,181,504)**
				1,383,000,372

31 December 2018	Not later than one year	Later than one year but not later than	Later than five years	Total
Gross Ijara receivables	84,938,483	324,692,415	549,298,566	958,929,464
Unearned income				(322,477,128)
				636,452,336
Impairment allowance for credit losses				(4,046,708)
				632,405,628

7. PREPAYMENTS AND OTHER ASSETS

	31 December 2019	31 December 2018
Prepayments	**1,316,538**	12,410,034
Other assets	**533,989**	1,881,163
	1,850,527	14,291,197

8. PROPERTY AND EQUIPMENT

	Leasehold improvements	**Office equipment and furniture**	**Motor vehicles**	**Computer hardware**	**Total**
Cost:					
Balance at 1 January 2019	368,350	348,119	478,510	2,409,216	3,604,195
Additions	2,912,892	242,678	--	322,489	3,478,059
Balance at 31 December 2019	**3,281,242**	**590,797**	**478,510**	**2,731,705**	**7,082,254**
Accumulated depreciation:					
Balance at 1 January 2019	106,148	71,591	34,475	471,460	683,674
Charge for the year	271,867	79,019	95,702	499,137	945,725
Balance at 31 December 2019	**378,015**	**150,610**	**130,177**	**970,597**	**1,629,399**
Carrying amounts:					
Balance at 31 December 2019	**2,903,227**	**440,187**	**348,333**	**1,761,108**	**5,452,855**

8. PROPERTY AND EQUIPMENT (CONTINUED)

	Leasehold improvements	Office equipment and furniture	Motor vehicles	Computer hardware	Total
Cost:					
Balance at 1 January 2018	368,350	336,672	--	2,274,467	2,979,489
Additions	--	11,447	478,510	134,749	624,706
Balance at 31 December 2018	368,350	348,119	478,510	2,409,216	3,604,195
Accumulated depreciation:					
Balance at 1 January 2018	36,835	22,839	--	107,762	167,436
Additions	69,313	48,752	34,475	363,698	516,238
Balance at 31 December 2018	106,148	71,591	34,475	471,460	683,674
Carrying amounts:					
Balance at 31 December 2018	**262,202**	**276,528**	**444,035**	**1,937,756**	**2,920,521**

9. INTANGIBLE ASSETS

Intangible assets include the Company’s core and other office related software’s.

	2019	2018
Cost:		
At the beginning of the year	**10,548,270**	9,148,247
Additions during the year	**--**	1,400,023
At the end of the year	**10,548,270**	10,548,270
Accumulated amortization:		
At the beginning of the year	**889,585**	150,928
Charge for the year	**3,516,090**	738,657
At the end of the year	**4,405,675**	889,585
Carrying amounts:	**6,142,595**	9,658,685

10. RIGHT-OF-USE ASSET

During the year, the Company entered into a 5-year lease contract for a new office premises and recognized a right-of-use asset amounting to SAR 5.08 million. Carrying value of right to use assets as at year end is SAR 4.32 million.

The corresponding lease liability as of the reporting date amounts to SAR 3.92 million as SAR 1.16 million was paid in advance at the commencement of the contract. The incremental borrowing rate applied is 4.5%.

11. TRADE AND OTHER PAYABLES

	2019	2018
Due to the Shareholder (Note 11.1)	**8,455,136**	8,455,136
Due to other suppliers (Note 11.2)	**4,812,590**	10,726,132
Accruals for:		
- Service fee	**761,660**	2,138,849
- Employees’ end-of-service benefits	**1,730,329**	400,000
- Rent	**--**	661,093
- Legal and professional services	**1,712,000**	280,000
- Employee cost related accruals	**2,099,312**	157,314
- Others	**784,933**	433,224
	20,355,960	23,251,748

11. TRADE AND OTHER PAYABLES (CONTINUED)

11.1 This represents amount due in respect of the pre-incorporation expenses incurred by the shareholder on behalf of the Company. The amount includes charges for consultancy services provided to the Company amounting to SAR 7.6 million.

11.2 This includes payable to mortgage finance companies amounting to SAR 1.98 million (31 December 2018: SAR NIL) against certain cash shortfalls paid by them on behalf of the customers in accordance with the Ijarah servicing agreements.

12. DEBT SECURITIES ISSUED

On 21 February 2019, the Company issued unsecured, non-convertible unlisted sukuk amounting to SAR 500 million.

As of the reporting date, the Company has issued various sukuk amounting to SAR 750 million (31 December 2018: SAR 250 million) with terms ranging from 5 to 10 years. These debt securities carry profit at agreed fixed rates payable semi-annually.

The balance includes accrued special commission expense of SAR 8.3 million (31 December 2018: SAR 0.68 million).

13. SHARE CAPITAL

The Company's authorized share capital is SAR 5,000,000,000 divided into 500,000,000 shares of SAR 10 each. As at 31 December 2019, the issued and fully paid-up share capital of the Company was SAR 1,500,000,000 (31 December 2018: SAR 1,500,000,000), which is fully owned by the Public Investment Fund ("the Shareholder").

14. GENERAL AND ADMINISTRATIVE EXPENSES

	2019	2018
Salaries and other benefits	**35,479,755**	17,929,236
Legal and professional fees	**19,566,238**	11,204,284
Travelling expenses	**2,819,335**	2,145,995
Rent	**640,598**	1,929,543
Subscriptions	**2,100,433**	1,847,491
IT consulting	**3,209,532**	1,360,133
Directors' remuneration	**3,478,000**	896,000
Amortization	**3,516,090**	738,657
Depreciation (Note 14.1)	**1,707,605**	516,238
Utilities	**1,137,760**	287,863
Others	**1,558,607**	584,382
	75,213,953	39,439,822

14.1 This includes depreciation charge for right of use assets amounting to SAR 0.76 million (31 December 2018: SAR NIL).

15. RELATED PARTY TRANSACTIONS

The related parties of the Company include the shareholder and its 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 are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly.

15. RELATED PARTY TRANSACTIONS (CONTINUED)

During the normal course of its operations, the Company had the following transactions with the related parties during the year:

Related parties	**Nature of transactions**	**2019**	2018
Board of directors	Board meeting expenses *(note 14)*	**3,478,000**	896,000
Key management personnel	Salaries and benefits	**6,001,044**	7,294,000
	End of service benefits	**500,087**	245,709
Affiliate	Purchase of Ijara portfolio	**364,053,146**	98,183,120
	Service fee paid	**1,220,700**	278,900
	Murabaha receivables purchased	**600,000,000**	460,000,000
	Murabaha receivables repayment	**200,000,000**	390,000,000
	Income from Murabaha placements	**4,755,026**	3,288,024
	Debt security issued	**100,000,000**	250,000,000
	Special commission expense	**14,074,699**	684,820

Related parties	**Nature of balance**	**2019**	2018
Public Investment Fund	Trade and other payables	**8,455,136**	8,455,136
Affiliate	Debt security held	**352,218,027**	250,684,820
	Murabaha receivables	**402,897,616**	70,361,772
	Service fee payable	**218,123**	38,870

16. RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including profit rate risks, equity price risk and currency risk). The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

Risk management is carried out under policies approved by the management. The management identifies, evaluates and has written principles for overall risk management covering specific areas, such as foreign exchange risk, profit rate risk, credit risk and investment of excess liquidity.

Credit risk

Credit risk is the risk that one party to a financial instrument may fail to discharge its contractual obligation and cause the other party to incur a financial loss. The Company has established procedures to manage credit risk including evaluation of lessees' credit worthiness, formal credit approvals and obtaining collateral.

The Company follows a credit classification mechanism, as a tool to manage the quality of credit risk. The credit classification differentiates between performing and non-performing portfolios and allocates provisions accordingly.

The credit risks on Ijara receivables is mitigated by the retention of title on leased assets as reduced by the down payments made by the debtors through the originators.

The table below reflects the maximum exposure to credit risk on the financial assets at the reporting date:

	2019	2018
Cash at Bank	**71,700,690**	880,632,174
Murabaha receivables	**777,776,212**	221,156,755
Ijara receivables	**1,391,181,876**	636,452,336
Other current assets	**533,989**	1,881,163
	2,241,192,767	1,740,122,428

Credit risk on cash at bank and Murabaha receivables is limited as the balances are held with banks and financing companies with sound credit rating.

16. RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

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 and 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).

Generating the term structure of PD
Since the Company is in initial stage of operations, it has no historical data and therefore the Company has used PD's based on the historical data obtained from the external sources.

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 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 30 Days Past Due (DPD) or more (Principal or interest payments) during the year.

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 days or more (obligors already defaulted) is used as stage 3.

Modified financial assets
The contractual terms of Ijara or Murabaha 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.

16. RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

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:
-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 or changing the timing of profit payments.

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.

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 Chief Risk Officer and economic experts and consideration of certain external actual and forecast information, the Company has made adjustment to its ECL model to incorporate the forward looking information.

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).

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 data of the originator of the Ijara financing portfolio 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 the LGD of mortgage finance companies of Kingdom of Saudi Arabia.

Going forward, subject to availability of adequate data, the Company shall derive the PD and LGD based on internally compiled data and shall revise the PD and LGD estimation methodology in line with IFRS 9 requirements.

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.

16. RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

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.

Liquidity risk

Liquidity risk is the risk that the Company may encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. The Company monitors and manages the liquidity structure of its assets and liabilities to ensure that cash flows are sufficiently balanced and that sufficient liquid funds are maintained to meet liquidity requirements. The table below shows an analysis of contractual cash flows of assets and liabilities:

		Contractual cash flows				
	Carrying value	Up to three months	More than three months and up to one year	More than one year	No fixed maturity	Total
31 December 2019						
Assets						
Cash and cash equivalents	**71,702,190**	**--**	**--**	**--**	**71,702,190**	**71,702,190**
Murabaha receivables	**777,776,212**	**777,776,212**	**--**	**--**	**--**	**777,776,212**
Ijara receivables	**1,391,181,876**	**30,915,174**	**84,351,863**	**1,273,459,651**	**2,455,188**	**1,391,181,876**
	2,240,660,278	**808,691,386**	**84,351,863**	**1,273,459,651**	**74,157,378**	**2,240,660,278**
Liabilities						
Trade and other payables	**20,355,960**	**--**	**--**	**--**	**20,355,960**	**20,355,960**
Debt securities issued	**758,303,559**	**7,305,890**	**997,669**	**750,000,000**	**--**	**758,303,559**
Lease Liability	**3922,203**	**1,157,000**		**2,765,203**		**3922,203**
	782,581,722	**8,462,890**	**997,669**	**752,765,203**	**20,355,960**	**782,581,722**
Gap	**1,458,078,556**	**800,228,496**	**83,354,194**	**520,694,448**	**53,801,418**	**1,458,078,556**

16. RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

		Contractual cash flows				
	Carrying value	Up to three months	More than three months and up to one year	More than one year	No fixed maturity	Total
31 December 2018						
Assets						
Cash and cash equivalents	880,632,477	--	--	--	880,632,477	880,632,477
Murabaha receivables	221,156,755	221,156,755	--	--	--	221,156,755
Ijara receivables	636,452,336	21,430,945	63,507,538	551,513,853	--	636,452,336
Other current assets	1,881,163	--	--	--	1,881,163	1,881,163
	1,740,122,731	242,587,700	63,507,538	576,389,438	882,513,640	1,740,122,731
Liabilities						
Trade and other payables	23,251,748	--	--	--	23,251,748	23,251,748
Debt securities issued	250,684,820	--	684,820	250,000,000	--	250,684,820
	273,936,568	--	684,820	250,000,000	23,251,748	273,936,568
Gap	1,466,186,163	242,587,700	62,822,718	301,513,853	859,261,892	1,466,186,163

In addition, the Company maintains an undrawn loan facility granted by a local bank amounting to SAR 1 billion that is readily available to meet its financing needs.

Market risk

Market risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as special commission rates and foreign exchange rates. Market risk can be categorized into currency risk, profit rate risk and equity price risk as follows:

Currency risk

Currency risk is the risk that the value of financial instruments may 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 therefore is not significantly exposed to currency risk.

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 at the date of statement of financial position are the Company's Ijara receivables, where fluctuations in profit rates, if any, are reflected in the results of operations. The Company's Murabaha receivables are short-term in nature and the Company monitors changes in rates periodically and determines the risk of holding them based on changes in market rates. Fluctuations in rates of financing for the Ijara receivables, if any, are reflected in the statement of profit or loss.

16. RISK MANAGEMENT (CONTINUED)

Profit rate risk (continued)

The following table depicts the sensitivity to a reasonable possible change in profit rates, with other variables held constant, on the Company's profit or loss. The sensitivity of income is the effect of the assumed changes in profit rates on the Ijara income.

	Change in variables	**Effect on income**
31 December 2019	**+/-15**	**2,514,675**
31 December 2018	+/- 15	790,507

Equity Price Risk

Equity price risk is the risk that the fair value or the future cash flows of the financial instrument will fluctuate because of the changes in market prices (other than those arising from currency risk or interest rate risk), whether those changes are caused by factors specific to the individual financial instrument issuer, or factors affecting all similar financial instruments traded in the market.

As at 31 December 2019, there are no equity investments of the Company, hence the Company is not exposed to equity price risk.

17. 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

Financial instruments comprise financial assets and financial liabilities.

Financial assets consist of cash and cash equivalents, Murabaha receivable, Ijara receivables and other current assets. Financial liabilities consist of trade and other payables and debt securities issued.

Fair value hierarchy

The Company uses 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: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at 31 December 2019 Ijarah receivables portfolio fair values under level 3 is SAR 1,438,336,889 (31 December 2018: SAR 632,405,628).

The valuation of Ijara receivables is estimated using contractual cash flows discounted at latest variable yield, which is the contracted profit rate for recent transactions. Input into the discounted cash flow techniques includes Saudi Inter Bank Offer rates (SIBOR), contractual cash flows and primary origination spreads.

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

Management assessed that the carrying amount of other financial instruments largely approximate fair value.

18. CAPITAL MANAGEMENT

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 measure capital adequacy by comparing the Company's eligible capital with its statement of financial position, commitments, if any, at a weighted amount determined by management to reflect their relative risk.

19. SUBSEQUENT EVENTS AND APPROVAL OF FINANCIAL STATEMENTS

The existence of novel coronavirus (Covid-19) was confirmed in early 2020 and has spread globally including the Kingdom of Saudi Arabia (KSA), causing disruptions to businesses and economic activity and may eventually impact repayment capacity of the Company's Ijarah and Murabaha customers. Moreover, the Government of KSA through SAMA has announced several initiatives to provide necessary relief to the financial services sector including underlying consumers. The Company considers this outbreak to be a non-adjusting post balance sheet event. As the situation is fluid and rapidly evolving, we do not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Company. The impact of this outbreak on the Company's financial statements including expected credit losses will be considered in the Company's financial statements for the year ending 31 December 2020.

The financial statements and its accompanying notes were approved for issue by the Board of Directors' on 22 Rajab 1441H (corresponding to 17 March 2020).