Saudi Finance Company
(A Saudi Closed Joint Stock Company)
Interim Condensed Financial Statements and
Report on Review of Interim Condensed Financial Statements
For the three-month and six-month periods ended 30 June 2019

SAUDI FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
INTERIM CONDENSED FINANCIAL STATEMENTS AND
REPORT ON REVIEW OF INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED 30 JUNE 2019

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Al-Bassam & Co.
Allied Accountants

PKF

REPORT ON REVIEW OF INTERIM CONDENSED FINANCIAL STATEMENTS

TO THE SHAREHOLDERS OF SAUDI FINANCE COMPANY (A SAUDI CLOSED JOINT STOCK COMPANY) RIYADH, KINGDOM OF SAUDI ARABIA

INTRODUCTION

We have reviewed the accompanying interim statement of financial position of Saudi Finance Company (the "Company") as at 30 June 2019 and the related interim statements of comprehensive income for the three-month and six-month periods ended 30 June 2019 and the interim statements changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes which form an integral part of these interim condensed financial statements. Management is responsible for the preparation and fair presentation of these interim condensed financial statements in accordance with International Accounting Standard 34 - "Interim Financial Reporting" (IAS 34) as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagement 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim condensed financial statements 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, as 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 interim condensed financial statements do not present fairly, in all material respects, in accordance with IAS 34 as endorsed in the Kingdom of Saudi Arabia.

For Al-Bassam & Co.
(Allied Accountants)

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SAUDI FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
INTERIM STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2019
(All amounts in Saudi Riyals unless otherwise stated)

	Note	30 June 2019 (Unaudited)	31 December 2018 (Audited) (Restated)
ASSETS			
Cash and cash equivalents		29,407,168	50,298,496
Prepayments and other receivables		3,341,146	3,592,860
Due from a related party	6	30,375	199,290
Net investment in Islamic financings	7	469,750,068	442,834,866
Investment carried at FVOCI		892,850	892,850
Assets repossessed held for sale		5,445,003	5,445,003
Restricted cash deposit		6,277,894	6,277,890
Property and equipment		4,305,838	5,018,293
Intangible assets		3,108,462	3,061,887
Right-of-use assets	8.1	6,075,399	-
TOTAL ASSETS		528,634,203	517,621,435
EQUITY AND LIABILITIES			
EQUITY			
Share capital	9	100,000,000	100,000,000
Statutory reserve	15	6,323,372	6,323,372
Retained earnings		67,676,788	60,425,394
Actuarial gain on employees' post-employment benefits		195,576	195,576
TOTAL EQUITY		174,195,736	166,944,342
LIABILITIES			
Due to a related party	6	13,100	111,560
Trade payables		9,774,813	1,392,025
Other payables and accruals		7,812,340	8,655,424
Lease Liabilities	8.1	5,756,428	-
Provision for zakat	10	9,569,128	10,017,032
Shari'a alternatives for financial derivative instruments		593,874	208,062
Financial facilities	11	318,189,810	327,956,104
Employees' post-employment benefits		2,728,974	2,336,886
TOTAL LIABILITIES		354,438,467	350,677,093
TOTAL EQUITY AND LIABILITIES		528,634,203	517,621,435

The accompanying notes 1 to 16 form part of these interim condensed financial statements

SAUDI FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
INTERIM STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED 30 JUNE 2019
(All amounts in Saudi Riyals unless otherwise stated)

	Notes	For the three-month period ended		For the six-month period ended	
		30 June 2019 (Unaudited)	30 June 2018 (Unaudited) (Restated)	30 June 2019 (Unaudited)	30 June 2018 (Unaudited) (Restated)
INCOME FROM ISLAMIC FINANCING		21,050,019	19,403,911	42,062,137	36,824,427
OPERATING EXPENSES					
Finance cost	11,6	(3,309,234)	(2,643,801)	(6,352,684)	(4,641,154)
General and administrative expenses		(9,914,389)	(8,727,500)	(19,221,433)	(17,110,245)
Selling and marketing expenses		(2,625,096)	(2,592,974)	(5,376,887)	(5,144,984)
Impairment on Islamic financing, net	12	(1,248,490)	(1,584,732)	(2,536,942)	(2,239,159)
Unrealized (loss)/gain on shari'a alternatives for financial derivative instruments		(250,970)	34,054	(385,812)	107,300
OPERATING INCOME		3,701,840	3,888,958	8,188,379	7,796,185
Other income		513,119	287,127	1,080,013	560,120
PROFIT BEFORE ZAKAT		4,214,959	4,176,085	9,268,392	8,356,305
Zakat	15	(791,499)	(1,325,000)	(2,016,998)	(2,696,000)
PROFIT FOR THE PERIOD		3,423,460	2,851,085	7,251,394	5,660,305
OTHER COMPREHENSIVE INCOME		-	-	-	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		3,423,460	2,851,085	7,251,394	5,660,305

The accompanying notes 1 to 16 form part of these interim condensed financial statements

SAUDI FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019
(All amounts in Saudi Riyals unless otherwise stated)

30 June 2019

	Note	Share capital	Statutory reserve	Retained Earnings	Actuarial gain on post-employment benefits	Total equity
Balance as at 1 January 2019 (Audited)		100,000,000	6,148,243	60,600,523	195,576	166,944,342
Impact of change in accounting policy	15	-	175,129	(175,129)	-	-
Balance as at 1 January 2019 – restated		100,000,000	6,323,372	60,425,394	195,576	166,944,342
Comprehensive income for the period		-	-	7,251,394	-	7,251,394
Balance as at 30 June 2019 (Unaudited)		100,000,000	6,323,372	67,676,788	195,576	174,195,736

30 June 2018

	Note	Share capital	Statutory reserve	Retained Earnings	Actuarial loss on post-employment benefits	Total equity
Balance as at 1 January 2018 (Audited)		100,000,000	4,334,611	32,870,112	(43,926)	137,160,797
Transitional adjustment on adopting new standard at 1 January 2018		-	-	839,032	-	839,032
Impact of change in accounting policy	15	-	(881,740)	881,740	-	-
Balance as at 1 January 2018 – restated		100,000,000	3,452,871	34,590,884	(43,926)	137,999,829
Comprehensive income for the period		-	-	5,660,305	-	5,660,305
Balance as at 30 June 2018 (Unaudited) – restated		100,000,000	3,452,871	40,251,189	(43,926)	143,660,134

The accompanying notes 1 to 16 form part of these interim condensed financial statements

SAUDI FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
INTERIM STATEMENT OF CASH FLOWS
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019
(All amounts in Saudi Riyals unless otherwise stated)

	30 June 2019 (Unaudited)	30 June 2018 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before zakat	9,268,392	8,356,305
Adjustments for:		
Depreciation of right of use assets	950,982	-
Depreciation of property and equipment	963,807	876,858
Amortization of intangibles	602,161	964,935
Finance cost	6,352,684	4,641,154
Impairment on Islamic financing, net	2,536,942	2,239,159
Unrealized loss / (gain) on shari'a alternatives for financial derivative instruments	385,812	(107,300)
Provision for employees' post-employment benefits	625,826	331,031
	21,686,606	17,302,142
(Increase) / decrease in operating assets		
Prepayments and other receivables	(1,132,036)	(729,316)
Due from a related party	168,915	-
Net investment in Islamic financing	(29,452,144)	(67,288,265)
Restricted cash deposit	(4)	(2,752,345)
	(30,415,269)	(70,769,926)
(Decrease)/increase in operating liabilities		
Trade payables	8,382,788	(9,182,730)
Other payables and accruals	(843,084)	(2,377,118)
Due to a related party	(98,460)	(11,770)
Zakat paid	(2,464,902)	(182,060)
Employees' post-employment benefits paid	(233,738)	(490,986)
Net cash used in operating activities	(3,986,059)	(65,712,448)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(251,352)	(793,978)
Purchase of intangible assets	(648,736)	(373,411)
Net cash used in investing activities	(900,088)	(1,167,389)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from financial facilities	198,000,000	250,046,893
Repayment of financial facilities	(205,413,803)	(165,347,703)
Finance cost paid	(8,591,378)	(3,009,376)
Net cash (used in) / generated from financing activities	(16,005,181)	81,689,814
Net (decrease) / increase in cash and cash equivalents	(20,891,328)	14,809,977
Cash and cash equivalents at beginning of the period	50,298,496	12,374,236
Cash and cash equivalents at end of the period	29,407,168	27,184,213

The accompanying notes 1 to 16 form part of these interim condensed financial statements

1. LEGAL STATUS AND OPERATIONS

Saudi Finance Company (formerly known as "Saudi Installment House Company") (the "Company") is a Saudi Closed Joint Stock Company registered in the Kingdom of Saudi Arabia under commercial registration number 1010078374 dated 23 Muharram 1411H (corresponding to 14 August 1990).

The Company is engaged in leasing, commercial financing, small and medium business financing, and retail financing in accordance with the Saudi Arabian Monetary Authority ("SAMA") approval number 351000071328 dated 3 Jumad Thani 1435H and license number 114102 dated 27 Muharram 1436H.

Pursuant to the Ministry of Commerce and Investment Resolution numbered 291 dated 4 Muharram 1436H (corresponding to 28 October 2014), the Company has been converted from a Limited Liability Company to a Saudi Closed Joint Stock Company and changed its name from "Saudi Installment House Company" to "Saudi Finance Company".

The activities of the Company are conducted in accordance with Islamic Shari'a, which prohibits usury as determined by the Shari'a Supervisory Board of the Company. The Company carries out financing activities through various Shari'a compliant instruments.

The Company's Head Office is located at the following address:
Saudi Finance Company
Khurais Street, Makkah Road
P.O. Box 18331
Riyadh 11415
Kingdom of Saudi Arabia

The Company has the following branches

S. No	Branch	C.R. No.	Date
1	Olaya, Riyadh	1010366245	23 Rabi Thani 1434H
2	Khurais, Riyadh	1010137723	17 Rabi Thani 1416H
3	Buraidah	1131013974	26 Dhul-Hijjah 1417H
4	Dammam	2051026306	24 Rabi Awal 1423H
5	Jeddah	4030242129	23 Rabi Thani 1434H
6	Al-Ahsa	2251056896	16 Jumad Awal 1435H
7	Medina	4650073124	11 Sha'aban 1435H
8	Hail	3350042118	11 Sha'aban 1435H
9	Badiya Riyadh	1010391633	23 Dhul-Hijjah 1434H

2. BASIS OF PREPARATION

2.1. STATEMENT OF COMPLIANCE

These interim condensed financial statements of the Company have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

The financial statements of the Company as at and for the period and year ended 31 March 2019 and 31 December 2018, respectively, were prepared in compliance with the IAS 34 and the International Financial Reporting Standards ("IFRS") respectively, as modified by SAMA for the accounting of zakat and income tax.

2. BASIS OF PREPARATION (CONTINUED)

2.1. STATEMENT OF COMPLIANCE (CONTINUED)

On 17 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 comprehensive income. This aligns with the IFRS and its interpretations as issued by the International Accounting Standards Board ("IASB").

Accordingly, the Company changed its accounting treatment for zakat by retrospectively adjusting the impact in line with International Accounting Standard 8 Accounting Policies, Changes in Accounting Estimates and Errors and the effects of this change are disclosed in note 15 to the interim condensed financial statements.

The results for the six-month period ended 30 June 2019 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2019.

These interim condensed 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 financial statements for the year ended 31 December 2018.

The Company has adopted IFRS 16 Leases. In accordance with the transition provisions in IFRS 16 the new rules have been adopted retrospectively with the cumulative effect of initially applying the new standard recognized on 1 January 2019. Comparatives for the 2018 financial year have not been restated. See note 3 below for further details on the impact of the change in accounting policy.

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

2.2. BASIS OF MEASUREMENT

These interim condensed financial statements are prepared under the historical cost convention except for the following:

a) Shari'a alternatives for financial derivative instruments carried at fair value;
b) Investments are carried at fair value; and
c) Assets repossessed held for sale carried at fair value less cost to sale.

2.3. FUNCTIONAL AND PRESENTATION CURRENCY

These interim condensed financial statements have been presented in Saudi Riyals (SR) which is the Company's functional and presentation currency. All financial information presented in Saudi Arabian Riyals has been rounded to the nearest Riyal, unless otherwise mentioned.

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

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

IFRS 16 LEASES

As indicated in note 2.1 above, the Company has adopted IFRS 16 Leases retrospectively from 1 January 2019 but has not restated comparatives for the 2018 reporting period as permitted under the specific transition provisions in the standard. On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases.

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

IFRS 16 LEASES (CONTINUED)

These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4%.

	2019
Operating lease commitments disclosed as at 31 December 2018	**7,973,990**
Discounted using the Company's incremental borrowing rate of 4%	7,108,702
(Less): short-term leases recognized on a straight-line basis as expense	(1,294,753)
Add/(less): adjustments as a result of a different treatment of extension and termination options	(171,317)
Lease liability recognized as at 1 January 2019	**5,642,632**

Right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position as at 31 December 2018. Prepayments reduced by SR, 1,383,750. The net impact on retained earnings on 1 January 2019 was **Nil**.

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases.

The Company has also elected not to apply IFRS 16 to contracts that were not identified as containing a lease under IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of the Company's annual financial statements as at 31 December 2018, except for the policies explained below:

4.1. Change in accounting policy in relation to accounting for zakat

As mentioned above, the basis of preparation has been changed for the period ended 30 June 2019 as a result of the issuance of latest instructions from SAMA dated 17 July 2019. Previously, zakat was 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 17 July 2019, the zakat shall be recognized in the statement of comprehensive income. The Company has accounted for this change in the accounting for zakat retrospectively (see note 2.1) and the effects of the above change are disclosed in note 15 to the interim condensed financial statements. The change has resulted in reduction of reported profit of the Company for the period ended 30 June 2018 by SR 2.6 million. The change has had no impact on the statement of cash flows for the period ended 30 June 2018.

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.2. Leases

As explained in note 2.1 above, the Company has changed its accounting policy for leases. The new policy is described in note 8 and the impact of the change in note 3. Until the 2018 financial year, leases of property and equipment where the Company, as lessee, has substantially all the risks and rewards of ownership been classified as finance leases.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES, AND ASSUMPTIONS

The preparation of the Company's interim condensed financial statements requires management to make judgments, estimates, and assumptions that affect the reported amounts of revenues, expenses, assets, and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

In addition to the key assumptions related to transition and adoption of IFRS 16 as disclosed within note 3, the key assumptions concerning the future and other key sources of estimation uncertainty at the interim statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period, are described in note 3. The Company has based its assumptions and estimates on parameters available when the interim condensed financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company's management. Such changes are reflected in the assumptions when they occur.

5.1. NEW AMENDED STANDARDS AND INTERPRETATIONS THAT ARE NOT YET EFFECTIVE:

There are no other new standards issued, however, there are a number of amendments to standards which are effective from 1 January 2020, but they do not have a material effect on the Company's Interim Condensed Financial Statements.

IFRIC 23 – Uncertainty over Income Tax Treatments

The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12 'Income Taxes'. It specifically considers whether tax treatments should be considered collectively; assumptions for taxation authorities' examinations; the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and the effect of changes in facts and circumstances. The interpretation is not expected to have a material impact on the Company's financial statements.

IFRS 3 Business Combinations and IFRS 11 Joint Arrangements

The standards clarify how a company accounts for increasing its interest in a joint operation that meets the definition of a business.

- If a party maintains (or obtains) joint control, then the previously held interest is not remeasured.
- If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value. The Company does not have any implications relating to the particular amendments.

5.1. NEW AMENDED STANDARDS AND INTERPRETATIONS THAT ARE NOT YET EFFECTIVE: (CONTINUED)

IAS 12 Income Taxes

The standard clarifies that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognized consistently with the transactions that generated the distributable profits – i.e. in profit or loss, other comprehensive income or equity. The Company does not have any impact of income taxes.

IAS 23 Borrowing Costs

The standards clarify that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any non-qualifying assets – are included in that general pool. As the costs of the retrospective application might outweigh the benefits, the changes are applied prospectively to borrowing costs incurred on or after the date an entity adopts the amendments. The interpretation is not expected to have a material impact on the Company's financial statements.

6. RELATED PARTY TRANSACTIONS AND BALANCES

A related party is a person or entity that is related to the entity that is preparing its financial statements (in this Standard referred to as the 'reporting entity').

(a) A person or a close member of that person's family is related to a reporting entity if that person:
- (i) has control or joint control of the reporting entity;
- (ii) has significant influence over the reporting entity; or
- (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to a reporting entity if any of the following conditions applies:
- (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

6. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

Transactions during the period			For the six-months ended	
Names of Related Party	**Nature of Relationship**	**Nature of transactions**	**30 June 2019 (Unaudited)**	**30 June 2018 (Unaudited)**
Abu Dhabi Islamic Bank (ADIB), U.A.E	Affiliate	Financial facilities obtained	168,000,000	150,000,000
		Financial facilities repaid	178,000,000	148,000,000
		Finance cost	3,225,044	2,409,534
		Reimbursed for expense paid on behalf of associates	226,798	195,617
		Expenses paid on behalf of associates	(57,833)	(195,617)
Abdullah Ibrahim Al Khorayef Sons Company, KSA	Shareholder	Collection fee income	-	10,000
		Rent expense	111,000	111,000
		Collection on behalf of AIA	38,100	160,900
		Repaid to AIA	136,560	162,670
		Expenses paid on behalf of shareholder	-	31,500
		Reimbursed for expense paid on behalf of shareholder	-	31,500

Key management personnel	30 June 2019 (Unaudited)	30 June 2018 (Unaudited)
Salaries and other short-term employee benefits	4,750,303	3,695,534

Balances as at the period-end

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
Due from a related party		
Abu Dhabi Islamic Bank (ADIB), U.A. E	30,375	199,290

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
Due to a related party		
Abdullah Ibrahim Al Khorayef Sons Company, KSA	13,100	111,560
Financial Facilities		
Abu Dhabi Islamic Bank (ADIB), U.A. E	168,000,000	178,000,000
Abu Dhabi Islamic Bank (ADIB), U.A.E (Finance Cost)	1,455,244	3,609,309
	169,455,244	181,609,309

7. NET INVESTMENT IN ISLAMIC FINANCINGS

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
Gross investment in Islamic financings	660,398,640	624,810,055
Unearned / Deferred Islamic financing income	(174,269,099)	(171,114,098)
Net investment in Islamic financings before provision for impairment	486,129,541	453,695,957
Less: Provision for impairment	(16,379,473)	(10,861,091)
Net investment in Islamic financings	469,750,068	442,834,866

7.1 The movement in the provision for impairment of Islamic financings during the period is as follows:

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
Balance at beginning of the period	10,861,091	10,095,337
Transition adjustment on adoption of IFRS 9	-	(839,032)
Provided during the period / year	5,518,382	7,710,069
Written off during the period / year	-	(6,105,283)
Balance at the end of the period / year	16,379,473	10,861,091

8. LEASES

8.1. Amounts recognized in the statement of Financial Position

The statement of financial position shows the following amounts relating to leases:

	30 June 2019 (Unaudited)
Right-of-use assets- Land & building	
Lease liabilities as at 1 January 2019	5,642,632
Prepaid Rent as at 31 December 2018-Reclassified	1,383,749
Balance as at 1 January 2019	7,026,381
Additions during the period	-
Balance as at 30 June 2019	7,026,381
Accumulated Depreciation	
Balance as at 1 January 2019	-
Depreciation charge for the period	(950,982)
Balance as at 30 June 2019	(950,982)
Net Book Value as at 30 June 2019	6,075,399
Lease Liabilities	
Balance as at 1 January 2019	5,642,632
Additions during the period	-
Charge for the period	113,796
Less: Lease payments during the period	
Balance as at 30 June 2019	5,756,428

8. LEASES (CONTINUED)

8.2. Amounts recognized in the statement of Comprehensive Income

The statement of Comprehensive Income shows the following amounts relating to leases:

	30 June 2019 (Unaudited)
Lease financial cost (included in finance cost)	113,796
Expense relating to short-term leases (included in General and administrative expenses)	406,000
Expense relating to leases of low-value assets that are not short-term leases	-
Expense relating to variable lease payments not included in lease liabilities	-

The total cash outflow for leases in 2019 was SR Nil.

8.3. The Company's leasing activities and how these are accounted for

The Company leases various land and buildings for branches. Rental contracts are typically made for fixed periods of 2 to 10 years but may have extension options as described in (8.4) below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for financing purposes.

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis

Assets and liabilities arising from a lease are initially measured on a present value basis. 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 payment 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 profit rate implicit in the lease, if that rate can be determined, or the Company's incremental borrowing rate.

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.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

8. LEASES (CONTINUED)

8.4. Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Company. These terms are used to maximize operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Company and not by the respective lessor.

8.5. Residual value guarantees

To optimize lease costs during the contract period, the Company sometimes provides residual value guarantees in relation to equipment leases.

9. SHARE CAPITAL

The Company's subscribed and paid-in share capital of SR. 100,000,000 is divided into 10,000,000 equity shares of SR. 10 each fully subscribed and paid, and distributed among shareholders as follows:

	30 June 2019		
Shareholders	**Holding %**	**No. of Shares**	**Amount**
ADIB Two Financial Invest LLC, U.A.E	**51%**	5,100,000	51,000,000
Abdullah Ibrahim Al Khorayef Sons Company, K.S.A	**46%**	4,600,000	46,000,000
Mohamed Abdullah Al Khorayef	**1%**	100,000	1,000,000
Saad Abdullah Al Khorayef	**1%**	100,000	1,000,000
Hamad Abdullah Al Khorayef	**1%**	100,000	1,000,000
	100%	**10,000,000**	**100,000,000**

10. PROVISION FOR ZAKAT

The movement in the provision for zakat is as follows:

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
Balance at the beginning of the period	10,017,032	20,767,786
Provided during the period / year	2,016,998	1,813,632
Payment during the period / year	(2,464,902)	(182,060)
Provision reversal for prior periods	-	(12,382,326)
Balance at the end of the period / year	9,569,128	10,017,032

STATUS OF ASSESSMENTS

During 2016, zakat assessments have been raised by the General Authority of Zakat and Tax ("GAZT") for the years 2005 to 2007 assessing additional zakat of SR 2,621,509 against which the Company has filed an appeal. No provision has been recorded in these financial statements in this respect, as the Company is confident of a favorable outcome on this matter.

During 2018 the Company received certain queries related to appeal filed for 2005 to 2007 and response is submitted to GAZT. Additionally, GAZT has provided settlement assessment for the year 2014 to 2017 with zakat liability of SR 3,256,349 based on the methodology of 10% zakat calculated on the net profit before zakat. This has resulted in reversal of the excess zakat provision of SR 12,382,326 held by the company for these years with corresponding increase in the equity.

The Company has submitted its Zakat declaration to General Authority of Zakat & Tax ("GAZT") for the year ended 31 December 2018 and has obtained the certificate valid until 7 Ramadan 1441 H corresponding to 30 April 2020.

11. FINANCIAL FACILITIES

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
Short-term financial facilities	168,000,000	178,000,000
Long-term financial facilities	148,437,331	145,851,134
Finance Cost payable	1,752,479	4,104,970
	318,189,810	327,956,104

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
Current portion		
Long-term financial facilities	59,105,154	53,775,254
Non-current portion		
Long-term financial facilities	89,332,177	92,075,880
	148,437,331	145,851,134

11.1. The Company obtained bank financial facilities from local Islamic banks for the purpose of financing working capital needs. These bank facilities bear finance cost at market prevailing rates and also have restricted cash deposit.

11.2. The facility agreements include covenants which, among other things, require the Company to maintain certain financial ratios. As of 30 June 2019, the Company was not in compliance with certain covenants of the financing agreements. However, the management has secured the necessary waiver from the respective bank and accordingly believes that the financers will not exercise their right to demand accelerated / immediate payment of the outstanding balance from the Company.

12. IMPAIRMENT ON ISLAMIC FINANCING, NET

	Note	30 June 2019 (Unaudited)	30 June 2018 (Unaudited)
Impairment on Islamic financing	7.1	5,518,382	5,645,069
Write-off recoveries		(2,981,440)	(3,405,910)
		2,536,942	2,239,159

13. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The Company's financial assets consist of cash and bank balances, investment, net investment in Islamic financing, restricted cash deposits and other receivables, its financial liabilities consist of trade payables, financial facilities, due to related party and other liabilities.

The Company's management determines the policies and procedures for both recurring fair value measurement and for non-recurring measurement

The carrying values of financial instruments are a reasonable approximation of fair value.

14. RECLASSIFICATION OF PRIOR PERIOD FIGURES

Certain comparative information has been reclassified to conform to the current period presentation.

15. RESTATEMENT/RECLASSIFICATION OF PRIOR PERIOD FIGURES

Certain comparative information has been reclassified to conform to current year presentation. Further, as set out in note 4.1, the Company has changed its accounting policy to recognize zakat for the year to profit or loss. Previously, zakat was charged to statement of changes in equity in retained earnings.

Impact on Statement of Comprehensive Income

	2018	2017
Profit before zakat for the year	18,136,317	10,335,728
Zakat	10,568,694	(4,208,543)
Adjusted profit for the year	**28,705,011**	**6,127,185**

Interim statement of comprehensive income (For the period ended 30 June 2018)

	For the six-month period ended 30 June 2018
Profit before zakat for the year	8,356,305
Zakat	(2,696,000)
Adjusted profit for the year	**5,660,305**

Impact on Statement of Financial Position and Statement of Changes in Equity

As at 31 December 2017, the below is the restatement impact on the comparative financial statements

	Before adjustment	2017	2016	After adjustment
Statutory reserve as at 31 December 2017	**4,334,611**	**(420,854)**	**(460,886)**	**3,452,871**
Retained earnings as at 31 December 2017	**33,709,144**	**420,854**	**460,886**	**34,590,884**

As at 31 December 2018, the below is the restatement impact on the comparative financial statements

	Before adjustment	2018	2017	2016	After adjustment
Statutory reserve as at 31 December 2018	**6,148,243**	**1,056,869**	**(420,854)**	**(460,886)**	**6,323,372**
Retained earnings as at 31 December 2018	**60,600,523**	**(1,056,869)**	**420,854**	**460,886**	**60,425,394**

16. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorized for issue on 25 Dhu al-Qa'da 1440H (corresponding to 28 July 2019) by the Board of Directors of the Company.