

MAALEM FINANCING COMPANY
(A Saudi Closed Joint Stock Company)

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019 AND
INDEPENDENT AUDITORS' REPORT

MAALEM FINANCING COMPANY
(A Saudi Closed Joint Stock Company)
Financial statements
For the year ended December 31, 2019

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Independent auditor's report to the shareholders of Maalem Financing Company (A Saudi Closed Joint Stock Company)

Report on the audit of the financial statements

Our opinion

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

What we have audited

The Company's financial statements comprise:

- the statement of comprehensive income for the year then ended;
- the statement of financial position as at December 31, 2019;
- the statement of changes in shareholders' equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include the summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the code of professional conduct and ethics, 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.

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 IFRSs as endorsed in the Kingdom of Saudi Arabia and the applicable requirements of the Regulations for Companies and the Company's Articles of Association, 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 are responsible for overseeing the Company's financial reporting process.

Independent auditor's report to the shareholders of Maalem Financing Company (A Saudi Closed Joint Stock Company) (continued)

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 International Standards on Auditing, 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment 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, 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.

PricewaterhouseCoopers



Khalid A. Mahdhar
License Number 368

March 3, 2020

MAALEM FINANCING COMPANY
(A Saudi Closed Joint Stock Company)
Statement of comprehensive income
For the year ended December 31, 2019
(All amounts in Saudi Riyals unless otherwise stated)

	Note	2019	2018 <i>Restated</i>
Murabaha income		49,127,857	30,597,871
Management Fee, Income		3,181,634	1,311,024
Financial charges		<u>(19,592,437)</u>	<u>(8,013,791)</u>
		32,717,054	23,895,104
Operating expenses			
Other general and administrative expenses	4	(15,021,213)	(11,942,988)
Reversal of / (provision for) doubtful debts	6	1,248,856	(7,125,274)
Salaries and other benefits		<u>(16,368,470)</u>	<u>(10,494,075)</u>
Income / (loss) from operations		2,576,227	(5,667,233)
Other Income		-	-
Net income / (loss) for the period before zakat		<u>2,576,227</u>	<u>(5,667,233)</u>
Reversal of zakat charge for the period	15	2,166,176	3,860,085
Other comprehensive income / (loss)		-	-
Total comprehensive income / (loss)		<u>4,742,403</u>	<u>(1,807,148)</u>
Earnings / (loss) per share		<u>0.32</u>	<u>(0.12)</u>
Weighted average number of shares	17	<u>15,000,000</u>	15,000,000

The notes on pages 7 to 24 form an integral part of these financial statements.

MAALEM FINANCING COMPANY
(A Saudi Closed Joint Stock Company)
Statement of financial position
As at December 31, 2019
(All amounts in Saudi Riyals unless otherwise stated)

	Note	December 31, 2019	December 31, 2018
Assets			
Cash and cash equivalents	5	41,828,950	77,134,350
Murabaha receivables, net	6	339,282,650	256,093,617
Due from related parties	7	327,627	363,987
Prepayments and other receivables	8	10,863,885	12,648,500
Repossessed assets held for sale	9	2,545,800	2,545,800
Property and equipment, net	10	7,584,989	5,996,754
Total assets		402,433,901	354,783,008
Liabilities			
Sukuk	11	50,000,000	83,333,333
Loan from a related party	12	79,327,397	79,327,397
Long term loans	13	108,187,399	30,037,500
Accrued and other liabilities	14	15,308,053	15,132,553
Provision for zakat	15	2,364,742	4,530,918
Employees' termination benefits	16	642,200	559,600
Total liabilities		255,829,791	212,921,301
Shareholders' equity			
Share capital	17	150,000,000	150,000,000
Statutory reserve	18	2,080,046	2,080,046
Accumulated deficit		(5,475,936)	(10,218,339)
Total shareholders' equity		146,604,110	141,861,707
Total liabilities and shareholders' equity		402,433,901	354,783,008
Commitments	19		

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MAALEM FINANCING COMPANY
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Statement of changes in shareholders' equity
For the year ended December 31, 2019
 (All amounts in Saudi Riyals unless otherwise stated)

	Note	Share capital	Statutory reserve	Accumulated deficit	Total
January 1, 2018		150,000,000	2,080,046	(7,430,159)	144,649,887
Changes on initial application of IFRS 9	6	-	-	(981,032)	(981,032)
Comprehensive income:					
Net loss for the year		-	-	(1,807,148)	(1,807,148)
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		-	-	(1,807,148)	(1,807,148)
December 31, 2018		150,000,000	2,080,046	(10,218,339)	141,861,707
January 1, 2019		150,000,000	2,080,046	(10,218,339)	141,861,707
Comprehensive income:					
Net profit for the year		-	-	4,742,403	4,742,403
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		-	-	4,742,403	4,742,403
December 31, 2019		150,000,000	2,080,046	(5,475,936)	146,604,110

The notes on pages 7 to 24 form an integral part of these financial statements.

MAALEM FINANCING COMPANY
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Statement of cash flows
For the year ended December 31, 2019
(All amounts in Saudi Riyals unless otherwise stated)

	Note	2019	2018
Cash flows from operating activities			
Net income / (loss) before zakat charge for the year		2,576,227	(5,667,233)
Adjustments for non-cash items:			
Depreciation	10	1,585,212	1,110,949
Financial interest charges		19,592,437	-
Gain on sale of property and equipment		-	(93,435)
Provision for doubtful debts	6	(1,248,856)	7,125,274
Provision for employees' termination benefits	16	549,857	601,919
Written off during the year	6	(7,010,474)	-
Changes in working capital			
Murabaha receivables		(74,929,703)	(73,361,933)
Prepayments and other assets		1,784,615	(3,051,211)
Due from related parties		36,360	2,621,720
Repossessed assets held for sale		-	(545,800)
Accrued and other liabilities		175,500	10,665,538
Zakat Paid		-	(862,211)
Employees' termination benefits paid	16	(467,257)	(701,019)
Net cash utilized in operating activities		<u>(57,356,082)</u>	<u>(62,157,442)</u>
Cash flows from investing activities			
Purchase of property and equipment	10	(3,173,447)	(2,054,788)
Proceeds from sale of property and equipment		-	104,798
Net cash utilized in investing activities		<u>(3,173,447)</u>	<u>(1,949,990)</u>
Cash flows from financing activities			
Long term loan proceeds	13	97,893,900	30,037,500
Long term loan payments		(20,202,423)	-
Sukuk proceeds		-	100,000,000
Sukuk repayment		(33,333,332)	(16,666,667)
Financial charges paid		(19,134,016)	-
Net cash generated from financing activities		<u>25,224,129</u>	<u>113,370,833</u>
Net change in cash and cash equivalents		(35,305,400)	49,263,401
Cash and cash equivalents at the beginning of the year	5	77,134,350	27,870,949
Cash and cash equivalents at the end of the year	5	<u>41,828,950</u>	<u>77,134,350</u>
Supplemental non-cash information:			
Real estate transferred from customers as settlement for an outstanding balance	9	-	545,800

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MAALEM FINANCING COMPANY
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Notes to the financial statements
For the year ended December 31, 2019
(All amounts in Saudi Riyals unless otherwise stated)

1. General information

Maalem Financing Company (the "Company") is a closed joint stock Company registered in the Kingdom of Saudi Arabia under commercial registration number 1010262141 issued in Riyadh on Safar 9, 1430H (corresponding to February 4, 2009).

As per the Saudi Arabian Monetary Authority ("SAMA") license number 45/HA/201605 dated 2 Sha'ban 1437H (corresponding to May 9, 2016), the Company is authorized to provide lease finance, consumer finance and small and medium enterprise finance in the Kingdom of Saudi Arabia.

The Company's registered office is located in Riyadh at the following address:

Maalem Financing Company
P.O. Box 271188
Riyadh 11352
Kingdom of Saudi Arabia

The Board of Directors approved issuing of these financial statements on March 1, 2020.

2. Summary of significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these financial statements to the extent they have not already been disclosed in the other notes. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements of the Company have been prepared:

- I. 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
- II. in compliance with the applicable requirements of the Regulations for Companies and the Company's Articles of Association.

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 International Financial Reporting Standards ("IFRS") respectively, as modified by SAMA for the accounting of zakat and income tax (relating to the application of IAS 12 - "Income Taxes" and IFRIC 21 - "Levies" so far as these relate to zakat and income tax) and in compliance with the applicable requirements of the Regulations for Companies and the Company's Articles of Association.

On 17 July 2019, SAMA instructed the financing companies in the Kingdom of Saudi Arabia to account for the zakat and income taxes in the statement of income. This aligns with the IFRS and its interpretations as issued by the International Accounting Standards Board ("IASB") and as endorsed in the Kingdom of Saudi Arabia and with the other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants ("SOCPA") (collectively referred to as "IFRS as endorsed in KSA").

Accordingly, the Company changed its accounting treatment for zakat and income tax by retrospectively adjusting the impact in line with International Accounting Standard 8 Accounting Policies, Changes in Accounting Estimates and Errors and the effects of this change are disclosed in note 15 to the financial statements. The Company has adopted IFRS 16 Leases from 1 January 2019. The change in accounting policies due to these are disclosed in note 2.3. The financial statements have been prepared on a historical cost basis, except as disclosed in these notes to the financial statements.

2.2 Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ('Saudi Riyals'). The financial statements are presented in Saudi Riyals, which is the Company's functional and presentation currency.

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2.3 a) Adoption of new standards and amendments

Effective from 1 January 2019 the Company has adopted one new accounting standard and the impact of the adoption is explained below:

IFRS 16 Leases

i) Company as a lessee: Policy applicable from January 1, 2019

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

Lease liabilities

Lease liabilities are initially measured at the present value of the outstanding lease payments paid at the commencement date, discounted using the interest rate implicit in the lease, if that rate can be determined, or the company's incremental borrowing rate.

Lease payments included in the measurement of lease liabilities comprise the following:

- 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.

Subsequently, the lease liabilities are measured at amortised cost using the effective interest rate method and are re-measured when there is a change in future lease payments arising from a change in index or rate, or if Company changes its assessment to exercise a purchase, extension or termination option. When the lease liabilities are re-measured, a corresponding adjustment is made to the carrying amount of the right-of-use assets, or is recorded in statement of income if the carrying amount of right-of-use asset reduced to zero.

Right-of-use assets

Right-of-use assets are initially 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.

Refundable security deposits are not included in the initial measurement of a right-of-use asset. However, the difference between the nominal amount of the refundable security deposits and its fair value at the commencement of the lease represent, an additional lease payment which is prepaid and accordingly added to the initial carrying amount of the right-of-use asset and released to the statement of income over the lease term as part of the depreciation of that assets.

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. In addition, the right-to-use assets is periodically reduced by impairment losses, if any, and adjusted for certain re-measurement of lease liabilities.

Lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The lease term assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

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Short-term and low value leases

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the statement of income. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise of IT-equipment and other office equipment.

(ii) Company as a lessee: Policy applicable before January 1, 2019

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Company is classified as a finance lease.

Finance leases that transfer to the Company substantially all of the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between financial charges and a reduction in the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in financial charges in the statement of income. A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statement of income on a straight-line basis over the lease term.

The Company adopted IFRS 16 using the modified retrospective approach. The Company elected to apply the standard to contracts that were previously identified as lease applying IAS 17 and IFRIC 4. The Company therefore did not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4. The Company elected to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. During the year the Company has performed an assessment of IFRS 16 and resolved that impact of difference as compared to leases accounted for applying IAS 17 & IFRIC 4 is not material to the Company's financial statements as a whole and accordingly, no adjustment has been made in these financial statements.

2.3 b) Change in accounting for zakat and income tax

As mentioned above, the basis of preparation has been changed from the period ended 30 September 2019 as a result of the issuance of instructions from SAMA dated 17 July 2019. Previously, zakat and income tax were recognized in the statement of changes in equity as per the SAMA circular no 381000074519 dated 11 April 2017. With the latest instructions issued by SAMA dated 17 July 2019, the zakat and income tax shall be recognized in the statement of comprehensive income. The Company has accounted for this change in the accounting for zakat and income tax retrospectively (see note 2.11) and the effects of the above change are disclosed in note 15 to the financial statements.

2.4 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts (if any).

2.5 Murabaha receivables

Murabaha originated by the Company, are initially recognized at fair value including transaction costs when cash is advanced to customers. Subsequently, these financial assets are measured at amortized cost. For presentation purposes, the unearned finance income and provision for impairment are deducted from gross receivables.

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2.6 Repossessed assets held for sale

The Company, in the ordinary course of business, acquires real estate or other assets against settlement of finances due. Such assets are considered as assets held for sale and are initially recorded at the lower of receivables value or the current fair value of the related assets, less any costs to sell, at the time of possession. No depreciation is charged on such assets.

Subsequent to initial recognition, any subsequent write down to fair value, less cost to sell, are charged to the statement of comprehensive income. Any subsequent gain in the fair value less cost to sell of these assets to the extent this does not exceed the cumulative write down is recognized as income together with any gain/loss on disposal.

2.7 Property and equipment

Property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to statement of comprehensive income during the reporting period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful life. The estimated useful life of the assets are as follows:

	Number of years
Vehicles	5 years
Furniture and fixtures	5 years
Computer equipment	5 years
Leasehold improvements	4 - 5 years or over the lease term whichever is shorter

2.8 Provisions, accrued and other liabilities

Provisions are recognised when the Company has an obligation (legal or constructive) arising from past events, and the costs to settle the obligation are both probable and may be measured reliably. Provisions are not recognised for future operating losses. Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

2.9 Employees' termination benefits

The Company operates an end of service benefit plan for its employees based on the prevailing Saudi Labor Laws. Accruals are made at the present value of expected future payments in respect of services provided by the employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of high-quality corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. The benefit payments obligation is discharged as and when it falls due. Remeasurements (actuarial gains / losses) as a result of experience adjustments and changes in actuarial assumptions are recognised in statement of comprehensive income.

2.10 Short-term employee benefits

Short-term employee benefits, include leave pay and airfare, are current liabilities included in accrued expenses, measured at the undiscounted amount that the entity expects to pay as a result of the unused entitlement.

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2.11 Zakat

In accordance with the regulations of the General Authority for Zakat and Tax ("GAZT"), the Company is subject to zakat attributable to the Saudi shareholders. Zakat is computed on the Saudi shareholders' share of equity or net income using the basis defined under the Zakat regulations. Zakat is accrued on a quarterly basis and charged directly to statement of comprehensive income. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

2.12 Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of impairment at each reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the statement of comprehensive income.

2.13 Revenue recognition

Income from murabaha receivables is recognized in the statement of comprehensive income using the effective yield method, on the outstanding balance over the term of the contract.

The calculation of effective yield method includes transaction costs and fees and commission income received that are an integral part of effective yield method. Transaction costs include incremental costs that are directly attributable to the acquisition of the financial asset.

Other income are recognized on accrual basis as the services are rendered.

2.14 Borrowing costs

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

2.15 General and administrative expenses

General and administrative expenses are those arising from Company's efforts underlying the administrative activities.

2.16 Financial instruments

The Company's management has assessed which business models apply to the financial assets held by the Company and has classified its financial instruments into the appropriate IFRS 9 categories.

IFRS 9 contains three principal classification categories for financial assets. The Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through other comprehensive income (FVOCI)
- those to be measured subsequently at fair value through profit or loss (FVTPL) and
- those to be measured at amortized cost.

At initial recognition, the Company measures financial assets at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transactions costs that are directly attributable to the acquisition of financial asset. Transactions cost of financial assets carried at fair value through profit or loss (FVTPL) are expensed in statement of comprehensive income.

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Subsequent measurement of debt instrument depends on the Company's business model for managing the assets and the cash flow characteristics of the assets. There are three measurement categories into which the Company classifies its debt instruments:

- i) **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payment of principal and profit are measured at amortised cost. A gain or loss on a debt instrument that is subsequently measured at amortised cost and is not part of the hedging relationship is recognized in statement of comprehensive income when the asset is derecognized or impaired. Profit from these financial assets is calculated the effective yield method.
- ii) **Fair value through other comprehensive income (FVOCI):** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and profit, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income (OCI), except for the recognition of impairment gains or losses, profit on financial instrument (revenue) and foreign exchange gains and losses which are recognised in profit and loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to statement of comprehensive income and recognised in other gains / (losses). Profit from these financial assets is included in finance income using the effective yield method.
- iii) **Fair value through profit or loss (FVTPL):** Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in statement of comprehensive income and presented net in the statement of comprehensive income statement within other gains / (losses) in the period in which it arises. Profit from these financial assets is included in the finance income.

Currently, the Company does not hold any equity instruments; therefore, the related accounting policies have not been presented.

2.17 Impairment of financial assets

The Company assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instrument assets carried at amortized cost. The Company recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Company considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal credit rating
- external credit rating (as far as available)
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations
- actual or expected significant changes in the operating results of the borrower
- significant increases in credit risk on other financial instruments of the same borrower
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the group and changes in the operating results of the borrower

Macroeconomic information (such as market interest rates or growth rates) is incorporated as part of the internal rating model.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment. A default on a financial asset is when the counterparty fails to make contractual payments within 90 days of when they fall due.

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The Company uses three categories for murabaha receivables which reflect their credit risk and how the loss provision is determined for each of those categories.

Category	Company definition of category	Basis for recognition of expected credit loss provision
Performing	Customers have a low risk of default and a strong capacity to meet contractual cash flows	12 month expected losses. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime
Underperforming	Loans for which there is a significant increase in credit risk; as significant increase in credit risk is presumed if interest and/or principal repayments are 90 days past due (see above in more detail)	Lifetime expected losses
Non-performing	Interest and/or principal repayments above 90 days past due	Lifetime expected losses

2.18 Financial liabilities - subsequent classification and measurement

All financial liabilities are subsequently measured at amortised cost using the effective yield method or FVTPL. The company has not designated any financial liabilities at FVTPL and it has no current intention to do so. The effective yield rate is the rate that discounts the estimated future cash payments through the expected life of the financial liability to the net carrying amount on initial recognition.

2.19 Derecognition of financial instruments

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. On derecognition of a financial asset the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in statement of comprehensive income.

The Company derecognizes a financial liability (or a part of a financial liability) from its statement of balance sheet when, and only when, the obligation specified in the contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, is recognised in statement of comprehensive income.

3 Significant accounting judgments, estimates and assumptions

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing these financial statements, the significant judgments made by management in applying the accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial statements as at and for the year ended December 31, 2018. Significant area where management has used estimates, assumptions or exercised judgements is the only Provision for impairment (note 2.17 and note 6).

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4 Other general and administrative expenses

	2019	2018
Professional fees	2,617,515	3,586,572
Depreciation	1,585,212	1,110,949
Rentals	1,474,850	1,048,742
Board of director's allowances	1,434,000	331,442
Medical insurance	911,385	650,741
Information technology	910,224	597,633
Enquiry & Subscriptions	904,811	245,550
End of service benefits and vacation	899,540	1,225,535
Sales & Collection Incentives	873,506	166,174
Taxes	662,044	988,548
Committee allowances	540,000	114,000
Marketing expenses	340,479	441,900
Utilities	165,914	86,340
Bank charges	61,558	83,638
Other expenses	1,640,175	1,265,224
	<u>15,021,213</u>	<u>11,942,988</u>

5 Cash and cash equivalents

	As at December 31	
	2019	2018
Cash in hand	482	2,628
Current accounts with banks	41,828,468	77,131,722
	<u>41,828,950</u>	<u>77,134,350</u>

6 Murabaha receivables, net

	As at December 31	
	2019	2018
Murabaha receivables	412,030,624	335,782,457
Less: Unearned revenue	(64,900,325)	(63,581,861)
Murabaha receivables, net	347,130,299	272,200,596
Less: Provision for doubtful debts	(7,847,649)	(16,106,979)
	<u>339,282,650</u>	<u>256,093,617</u>
Current portion of murabaha receivables	197,493,696	116,151,031
Non-current portion of murabaha receivables	149,636,603	156,049,565
	347,130,299	272,200,596
Less: Provision for murabaha losses	(7,847,649)	(16,106,979)
	<u>339,282,650</u>	<u>256,093,617</u>

The movement in provision for doubtful debts was as follows:

	2019	2018
Opening balance	16,106,979	8,000,673
Changes on initial application of IFRS 9 (Reversal) / Charge for the year	-	981,032
Written off during the year	(7,010,474)	-
	<u>7,847,649</u>	<u>16,106,979</u>
Closing balance at end of the year	7,847,649	16,106,979

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6.1 Stage wise analysis of murabaha receivables is as follows:

	Performing	Under-performing	Non-performing	Total
December 31, 2019				
Receivables	294,975,380	95,591,426	21,463,818	412,030,624
Unearned revenue	(46,257,873)	(15,206,296)	(3,436,156)	(64,900,325)
Impairment provision	(297,551)	(547,195)	(7,002,903)	(7,847,649)
Net receivables	248,419,956	79,837,935	11,024,759	339,282,650
December 31, 2018				
Receivables	227,800,884	87,523,682	20,457,891	335,782,457
Unearned revenue	(43,963,567)	(15,374,172)	(4,244,122)	(63,581,861)
Impairment provision	(3,533,525)	(1,519,152)	(11,054,302)	(16,106,979)
Net receivables	180,303,792	70,630,358	5,159,467	256,093,617

6.2 The movement in provision for murabaha receivables is as follows:

	2019			2018	
	Performing	Under-performing	Non-performing	Total	Total
January 1,	3,533,525	1,519,152	11,054,302	16,106,979	8,000,673
Changes on initial application of IFRS 9	-	-	-	-	981,032
Opening loss allowance	3,533,525	1,519,152	11,054,302	16,106,979	8,981,705
Charge / (reversal) for the year	(3,235,974)	(971,957)	2,959,075	(1,248,856)	7,125,274
Written off during the year	-	-	(7,010,474)	(7,010,474)	-
December 31,	297,551	547,195	7,002,903	7,847,649	16,106,979

6.3 Murabaha receivables includes an amount of Saudi Riyals 528,140 (December 31, 2018: Saudi Riyals 11,877,945) relating to inventory purchased for customers.

7 Due from related parties

Due from related parties represents due amounts from the Company's shareholders obtaining finance in form of murabaha contracts. Terms of those contracts were approved by the Company's Board of Directors.

	Relationship	As at December 31	
		2019	2018
Ayman Amin Sajini	Shareholder	327,627	363,987
		327,627	363,987
		As at December 31	
		2019	2018
Due from related parties		405,000	483,750
Less: Unearned revenue		(77,373)	(119,763)
		327,627	363,987

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8 Prepayments and other receivables

	As at December 31	
	2019	2018
Advance financial interest	2,456,373	5,224,010
Prepayments and other receivables	8,407,512	7,424,490
	10,863,885	12,648,500

9 Repossessed assets held for sale

The balance represents value of real estate received from Company's customers during the year to settle part of their outstanding balance, the legal procedure needed to transfer the ownership of real estate to the Company was completed during the year. Currently, the Company set the land for sale and expects to sell it during 2020.

10 Property and equipment, net

2019	Vehicles	Furniture and fixtures	Computer equipment	Leasehold improvements	Total
Cost					
January 1, 2019	265,300	1,677,873	2,121,203	4,584,894	8,649,270
Additions during the year	-	620,147	1,776,710	776,590	3,173,447
Disposals during the year	-	-	-	-	-
December 31, 2019	265,300	2,298,020	3,897,913	5,361,484	11,822,717
Accumulated depreciation					
January 1, 2019	253,710	888,348	730,522	779,936	2,652,516
Charge for the year	9,886	289,748	490,440	795,138	1,585,212
Disposals during the year	-	-	-	-	-
December 31, 2019	263,596	1,178,096	1,220,962	1,575,074	4,237,728
Net book value at December 31, 2019	1,704	1,119,924	2,676,951	3,786,410	7,584,989
2018	Vehicles	Furniture and fixtures	Computer equipment	Leasehold improvements	Total
Cost					
January 1, 2018	679,550	1,441,939	1,089,493	3,828,270	7,039,252
Additions during the year	-	263,154	1,035,010	756,624	2,054,788
Disposals during the year	(414,250)	(27,220)	(3,300)	-	(444,770)
December 31, 2018	265,300	1,677,873	2,121,203	4,584,894	8,649,270
Accumulated depreciation					
January 1, 2018	622,656	661,454	472,124	218,740	1,974,974
Charge for the year	45,304	245,344	259,105	561,196	1,110,949
Disposals during the year	(414,250)	(18,450)	(707)	-	(433,407)
December 31, 2018	253,710	888,348	730,522	779,936	2,652,516
Net book value at December 31, 2018	11,590	789,525	1,390,681	3,804,958	5,996,754

11 Sukuk

During the year, the Company obtained SAMA approval to issue private Sukuk Certificates (Sukuk) with total amount of Saudi Riyals 500 million. The first phase of Sukuk issuance amounted to Saudi Riyals 100 million.

The total tenure of the Sukuk is three years with payments (principal and profits) payable quarterly in advance. The profit distribution on the Sukuk is based on three months SIBOR plus a spread of ten percent. The Company has not defaulted on any of payments (profit / principal) due during the year and the Company has complied with terms of the covenants pertaining to the Sukuk. Further, there are no conversion options to equity relating to the Sukuk.

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	<u>As at December 31</u>	
	2019	2018
Current portion	33,333,333	33,333,333
Non-current portion	16,666,667	50,000,000
	<u>50,000,000</u>	<u>83,333,333</u>

12 Loan from a related party

	<u>As at December 31</u>	
	2019	2018
Opening balance	79,327,397	79,327,397
Loan Obtained	-	-
Financial Charges	4,500,000	4,500,000
Financial Charges Paid	(4,500,000)	(4,500,000)
	<u>79,327,397</u>	<u>79,327,397</u>

During 2016, the Company signed an agreement with a related party to obtain a long-term loan to finance the growth of its lending portfolio in order to provide a wide range of financing products to both individual and corporate clients in the Kingdom of Saudi Arabia, with products being tailored to meet a wider base of clients. The Company obtained the loan amounting Saudi Riyals 75 million, the loan is subject to 6% annual commission rate. The loan is secured by pledging the Company's shares to the financier. The loan will be repaid in one instalment after five years.

13 Long term loans

		<u>As at December 31</u>	
	Note	2019	2018
Long term loan	13.1	100,293,499	30,037,500
Long term bank loan	13.2	7,893,900	-
		<u>108,187,399</u>	<u>30,037,500</u>

13.1 Long term loan

		<u>As at December 31</u>	
	Note	2019	2018
Opening balance		30,037,500	-
Add: Loans obtained during the period		90,000,000	30,000,000
Add: Loan management fee accrued during the period		1,735,028	37,500
Less: Principal repayment during the period		(20,202,423)	-
Less: Loan management fee paid during the period		(831,950)	-
Less: Deferred income on initial recognition of interest free loans		(5,748,672)	-
Closing balance		<u>94,989,483</u>	<u>30,037,500</u>
Add: Deferred income on interest free loans	13.1.1	5,304,016	-
		<u>100,293,499</u>	<u>30,037,500</u>
Current portion		40,212,050	9,887,975
Non-current portion		60,081,449	20,149,525
		<u>100,293,499</u>	<u>30,037,500</u>

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13.1.1 Deferred income on interest free loans

	<u>As at December 31</u>	
	2019	2018
Opening balance	-	-
Add: Deferred income on initial recognition of interest free loan	5,748,672	-
Less: Amortisation of deferred income on interest free loans	<u>(444,656)</u>	-
Closing balance	<u>5,304,016</u>	-

The Company received three interest free loans from Social Development Bank to finance small and medium entities in the Kingdom of Saudi Arabia amounting Saudi Riyals 120 million for three years. The first re-payment on the loans will be on January 1, 2019, June 1, 2019 and November 1, 2019 respectively, which was paid by the Company. These loans carries a fixed special commission rate that is significantly lower than currently prevailing market rate. These loans provided to the Company carries a number of conditions, one of which is that these loans are to be used for providing loans to specific types/sectors of customers at discounted rates. The benefit amounting to Saudi Riyals 5.7 million being the impact of "lower than market value" loan obtained by the Company has been identified and accounted for as a "government grant". Such benefit is being recognised in the statement of comprehensive income of the Company on a systematic basis as the expense for which such grant is intended to compensate, is recognised.

13.2 Long term bank loan

	<u>As at December 31 2019</u>	<u>As at December 31 2018</u>
Opening balance	-	-
Add: Loans obtained during the period	7,893,900	-
Add: Loan management fee accrued during the period	114,335	-
Less: Principal repayment during the period	-	-
Less: Loan management fee paid during the period	<u>(114,335)</u>	-
	<u>7,893,900</u>	-
Current portion	2,105,040	-
Non-current portion	<u>5,788,860</u>	-
	<u>7,893,900</u>	-

14 Accrued and other liabilities

		<u>As at December 31</u>	
	Note	2019	2018
Murabaha contract related payables	14.1	528,140	11,877,945
Accrued expenses and others		<u>14,779,913</u>	<u>3,254,608</u>
		<u>15,308,053</u>	<u>15,132,553</u>

14.1 These pertain to amounts payable to a third party for inventory purchased for customers in relation to murabaha contracts. Such amount will be settled by the Company during 2020.

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15 Provision for zakat

15.1 The movement in the zakat provision is as follows:

	2019	2018
January 1	4,530,918	9,253,214
Charge during the year (15.2)	1,232,012	572,450
Provision reversal during the year (note 15.3)	(3,398,188)	(4,432,535)
	(2,166,176)	(3,860,085)
Payments made during the year	-	(862,211)
December 31	2,364,742	4,530,918

15.2 Zakat charge for the year ending December 31, 2019 has been recorded in accordance with the guidance issued by GAZT based on the Ministerial Decree No 2215 issued on 07/07/1440 corresponding to March 14, 2019.

15.3 Status of assessments

The Company has filed its zakat returns with GAZT for the years until 2018. During the year ended December 31, 2018, the Company based on the letter received subsequent to the year end and before issuance of the annual financial statements, received a letter from GAZT in which the Company was offered a refund of Saudi Riyals 1,396,396 relating to tax years 2016 and 2018. The Company had accepted the refund offer from GAZT and therefore reversed the provisions kept in relation to tax years 2016 and 2018 amounting to Saudi Riyals 4,432,535. Further, during 2019 in relation to year 2009 to 2015, the Company reversed provisions amounting to Saudi Riyals 3,398,188 based on the recommendation of zakat consultant.

15.4 Change in accounting treatment in relation to zakat

The change in the accounting treatment for zakat (as explained in note 2.3(b)) has the following impact on the line items of the statements of comprehensive income and changes in shareholders' equity. There is no impact on the statement of financial position as at December 31, 2018 and statement of cash flows for the year then ended.

Financial statement impacted	Account	As previously stated for December 31, 2018	Effect of restatement relating to zakat	As restated for December 31, 2018
Statement of income	Reversal of zakat charge for the period	-	3,860,085	3,860,085
Statement of income	Basic loss per share	(0.38)	0.26	(0.12)
Statement of changes in shareholders' equity	Total comprehensive loss for the period	(5,667,233)	3,860,085	(1,807,148)
Statement of changes in shareholders' equity	Zakat charge for the period	3,860,085	(3,860,085)	-

16 Employee termination benefits

	2019	2018
Opening balance	559,600	658,700
Current service cost	549,857	601,919
End of service payments during the year	(467,257)	(701,019)
Ending balance	642,200	559,600

The provision of this defined benefit plan is based on projected unit credit method. The key assumptions used in current and prior year include 2.5% salaries increment and 2.7% discount rate. The change in assumptions will not have significant effect on the provision as at December 31, 2019.

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17 Share capital

Shareholders	Holding	No. of shares	Amount
2019			
Saleh Abdullah Alsayari	34%	5,107,999	51,079,990
Majed Romi Al Romi	21%	3,212,776	32,127,760
Abdulaziz Abdulrahman Alromi	18%	2,668,507	26,685,070
Other	27%	4,010,718	40,107,180
	100%	15,000,000	150,000,000
2018			
Saleh Abdullah Alsayari	34%	5,107,999	51,079,990
Majed Romi Al Romi	21%	3,212,776	32,127,760
Abdulaziz Abdulrahman Alromi	18%	2,668,507	26,685,070
Other	27%	4,010,718	40,107,180
	100%	15,000,000	150,000,000

During 2018, the Company's General Assembly approved the Company's capital increase from Saudi Riyals 100 million to Saudi Riyals 150 million through a cash deposit from the Company's shareholders, which was proposed by the Company's Board of Directors on October 22, 2016, and authorized by SAMA on February 6, 2017.

Share capital consists of 15 million shares as of December 31, 2019 (December 31, 2018: 15 million shares). Each share has a book value of Saudi Riyals 10 as of December 31, 2019 (December 31, 2018: Saudi Riyals 10).

18 Statutory reserve

In accordance with Regulations for Companies in Saudi Arabia, the Company is required to set aside a statutory reserve, after absorption of accumulated losses, if any, by the appropriation of 10% of net income until the reserve equals 30% of the share capital. This reserve is not available for distribution. During 2019, no transfer has been made due to accumulated losses.

19 Commitments

Capital commitments

There are no significant capital commitments at financial position date.

Operating leases commitments

Rental expenses under operating leases are charged to the statement of comprehensive income over the period of the respective lease. The Company has one operating lease contract for one year period renewing yearly with an amount of Saudi Riyals 0.75 million. Other lease contracts are not significant.

20 Fair values of financial assets and liabilities

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

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

The principal or the most advantageous market must be accessible to the Company. The fair value of an asset or a liability is measured using assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. The fair value of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Company determines fair values using other valuation techniques.

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Valuation models

The Company measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data; and

Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

Fair value hierarchy of financial assets and liabilities

All financial assets and liabilities of the Company are categorised as held at amortized cost which approximate their fair values.

21 Financial risk management

Risk management framework

The Company's Board of Directors has overall responsibility for the establishment and supervising the Company's risk management framework. The Board of Directors has established the Risk Management Committee, to oversee the development and maintenance of risk management processes, policies, strategies, risk methodologies and reporting them to the Board.

In addition, the Audit Committee of the Company also reviews the internal audit risk assessment, discusses the Company's policy with respect to risk assessment and risk management. The Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Risk Management Committee oversees the Company risks and reports to the Board of Directors.

(i) Credit risk

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to murabaha receivables customers, including outstanding receivables and due from related parties.

Cash and cash equivalents are maintained with local banks approved by management. Accordingly, as a pre-requisite, the banks with whom cash and cash equivalents are maintained are required to have a minimum acceptable security rating level affirming their financial strength. Where murabaha receivable customers are independently rated, such ratings are used. Where there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The compliance with credit limits by murabaha receivables customers is regularly monitored by line management.

Murabaha receivables customers are required to settle in cash or through credit cards, mitigating credit risk. There are no significant concentrations of credit risk, whether through exposure to individual customers, specific industry sectors and/or regions. For certain murabaha receivables the Company may obtain security in the form of

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guarantees, deeds of undertaking or letters of credit which can be called upon if the counterparty is in default under the terms of the agreement.

ii) Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its payment obligations when they fall due under normal and stress circumstances. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to be less readily available. To mitigate this risk, management manages assets with liquidity in mind, maintaining an appropriate balance of cash, cash equivalents and readily marketable securities and monitors future cash flows and liquidity on a daily basis. The Company also has revolving credit facilities from commercial banks that it can access to meet future liquidity needs. Maturity profile of financial assets and liabilities are as follows:

	Less than 3 months	3 to12 months	1 to 10 years	Total 2019
2019				
Financial assets - commission bearing				
Murabaha receivables, net	59,113,521	138,380,175	141,788,954	339,282,650
Due from related parties	9,914	72,933	244,780	327,627
Financial assets - non commission bearing				
Cash and cash equivalents	41,828,950	-	-	41,828,950
	100,952,385	138,453,108	142,033,734	381,439,227
Financial liabilities - commission bearing				
Sukuk	8,333,333	25,000,000	16,666,667	50,000,000
Loan from a related party	4,327,397	-	75,000,000	79,327,397
Long term loan	10,902,255	31,414,835	65,870,309	108,187,399
Financial liabilities - non commission bearing				
Accrued and other liabilities	12,703,690	1,583,528	1,020,835	15,308,053
	36,266,675	57,998,363	158,557,811	252,822,849
Liquidity gap	64,685,710	80,454,745	(16,524,077)	128,616,378
2018				
Financial assets - commission bearing				
Murabaha receivables, net	53,548,787	62,602,245	139,942,585	256,093,617
Due from related parties	30,034	61,440	272,513	363,987
Financial assets - non commission bearing				
Cash and cash equivalents	77,134,350	-	-	77,134,350
	130,713,171	62,663,685	140,215,098	333,591,954
Financial liabilities - commission bearing				
Sukuk	8,333,333	25,000,000	50,000,000	83,333,333
Loan from a related party	4,327,397	-	75,000,000	79,327,397
Long term loan	2,486,293	7,401,682	20,149,525	30,037,500
Financial liabilities - non commission bearing				
Accrued and other liabilities	13,262,812	880,173	989,567	15,132,552
	28,409,835	33,281,855	146,139,092	207,830,782
Liquidity gap	102,303,336	29,381,830	(5,923,994)	125,761,172

MAALEM FINANCING COMPANY
(A Saudi Closed Joint Stock Company)
Notes to the financial statements
For the year ended December 31, 2019
 (All amounts in Saudi Riyals unless otherwise stated)

iii) Commission rate risk

Commission rate risk is the impact on future earnings of the Company resulting from increase in the market interest rates. The risk arises when there is a mismatch in the assets and liabilities which are subject to interest rate adjustment within a specified period. The most important source of such risk is the Company's murabaha receivables and borrowings. The commission rate is fixed for the murabaha receivables and for the loan borrowings. The Company manages such risk by ensuring that there is no significant mismatch between commission bearing assets and liabilities and therefore such risk is not considered to have a significant impact on the financial statements.

iv) Currency risk

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Company has no exposure to foreign currency risk as it mainly deals in Saudi Riyals which is also the functional currency of the Company.

22 Capital management

The Company's objective when managing capital are to safeguard Company's ability to continue as a going concern in order to provide returns for the shareholders and benefits to other stakeholders and to maintain optimal capital structure to reduce the cost of capital.

The Board of Directors seeks to maintain a balance between the higher returns that might be possible with higher levels of murabaha financing and the advantages and security afforded by a sound capital position. In relation to the capital structure of the Company, management closely monitors the compliance with regulations and debt covenants and as at the statement of financial position date the Company was is in compliance with the prescribe requirements. At financial position date, the management analysis of gearing ratio was as follows:

	2019	2018
Debt	237,514,796	192,698,230
Shareholders' equity	146,604,110	141,861,707
	162%	136%