DAR AL TAMLEEK COMPANY
(A Saudi Closed Joint Stock Company)

UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
For the three-month period ended March 31, 2019
together with the Independent Auditors' Review Report

KPMG

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Independent Auditors' Report

On Review of Condensed Interim Financial Statements to The Shareholders of Dar Al Tamleek Company

Introduction

We have reviewed the accompanying condensed interim financial statements of Dar Al Tamleek Company ("the Company"), which comprises:

- the condensed statement of financial position as at March 31, 2019;
- the condensed statements of profit or loss and other comprehensive income for the three-month period ended March 31, 2019;
- the condensed statement of changes in shareholders' equity for the three-month period ended March 31, 2019;
- the condensed statement of cash flows for the three-month period ended March 31, 2019; and
- the notes to the condensed interim financial statements.

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying March 31, 2019 condensed interim financial statements of **Dar Al Tamleek Company** are not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting' as modified by SAMA for the accounting of zakat and income tax.

For KPMG Al Fozan & Partners
Certified Public Accountants

Ebrahim Oboud Baeshen
License No. 382

Jeddah, Shaban 23, 1440H
Corresponding to April 28, 2019

DAR AL TAMLEEK COMPANY
(A Saudi Closed Joint Stock Company)

CONDENSED STATEMENT OF FINANCIAL POSITION
As at March 31, 2019
Expressed in Saudi Arabian Riyals

	Notes	**March 31, 2019 (Unaudited)**	December 31, 2018 (Audited)
ASSETS			
Cash and cash equivalents	4	**241,273,296**	342,170,594
Accounts receivable and other current assets		**44,159,150**	38,019,399
Properties for sale under finance leases		**2,758,449**	8,942,449
Net investment in finance leases	5	**334,101,098**	331,621,517
Servicing rights under agency arrangements	6	**298,785,510**	288,514,347
Financial investment		**892,850**	892,850
Right of use assets		**9,319,230**	--
Property and equipment		**2,155,785**	2,036,913
Total assets		**933,445,368**	1,012,198,069
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Accounts payable and other current liabilities		**249,631,690**	246,086,823
Payable for properties for sale under finance leases		**5,824,130**	11,382,629
Loans and borrowings		**10,733,490**	107,409,240
Share-based payments		**9,347,999**	7,098,000
Lease liabilities		**10,602,455**	--
Employees' benefits		**10,685,016**	10,365,568
Total liabilities		**296,824,780**	382,342,260
SHAREHOLDERS' EQUITY			
Share capital		**508,750,000**	508,750,000
Statutory reserve		**35,741,787**	35,741,787
Retained earnings		**92,128,801**	85,364,022
Total shareholders' equity		**636,620,588**	629,855,809
Total liabilities and shareholders' equity		**933,445,368**	1,012,198,069

The accompanying notes 1 through 10 form an integral part of these condensed interim financial statements.

DAR AL TAMLEEK COMPANY
(A Saudi Closed Joint Stock Company)

CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (UNAUDITED)
For the three-month period ended March 31, 2019
Expressed in Saudi Arabian Riyals

	Notes	**March 31, 2019**	March 31, 2018
Income			
Income from finance leases		**8,443,784**	13,883,830
Income from agency arrangements	6	**33,695,408**	18,559,684
		42,139,192	32,443,514
Operating expenses			
Selling and marketing expenses		**(13,412,290)**	(10,495,358)
General and administrative expenses		**(8,933,731)**	(5,090,702)
Allowance for expected credit loss		--	(951,989)
Amortization of servicing rights under agency arrangements	6	**(10,584,285)**	(7,472,557)
Net operating income		**9,208,886**	8,432,908
Financial charges		**(599,245)**	(1,486,597)
Other income		**920,414**	100,029
Net profit for the period		**9,530,055**	7,046,340
Other comprehensive income for the period		--	--
Total comprehensive income for the period		**9,530,055**	7,046,340
Basic and diluted earnings per share (expressed in SR per share)	8	**0.19**	0.14

The accompanying notes 1 through 10 form an integral part of these condensed interim financial statements.

DAR AL TAMLEEK COMPANY
(A Saudi Closed Joint Stock Company)

CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)
For the three-month period ended March 31, 2019
Expressed in Saudi Arabian Riyals

	Share capital	Statutory reserve	Retained earnings	Total
Balance at January 1, 2019	508,750,000	35,741,787	85,364,022	629,855,809
IFRS 16 first time adoption impact (note 2-(e))	--	--	(1,812,270)	(1,812,270)
Balance at January 1, 2019 (restated)	508,750,000	35,741,787	83,551,752	628,043,539
Total comprehensive income for the three-month period ended March 31, 2019	--	--	9,530,055	9,530,055
Zakat for current period (note 7)	--	--	(953,006)	(953,006)
Balance as at March 31, 2019	**508,750,000**	**35,741,787**	**92,128,801**	**636,620,588**
Balance at January 1, 2018 (restated)	508,750,000	29,541,418	77,082,840	615,374,258
Total comprehensive income for the three-month period ended March 31, 2018	--	--	7,046,340	7,046,340
Zakat for current period	--	--	(297,075)	(297,075)
Balance as at March 31, 2018	508,750,000	29,541,418	83,832,105	622,123,523

The accompanying notes 1 through 10 form an
integral part of these condensed interim financial statements.

DAR AL TAMLEEK COMPANY
(A Saudi Closed Joint Stock Company)

CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)
For the three-month period ended March 31, 2019
Expressed in Saudi Arabian Riyals

	Notes	March 31, 2019	March 31, 2018
Operating activities			
Net profit for the period		**9,530,055**	7,046,340
Adjustments for:			
Depreciation		**300,415**	150,551
Depreciation of Right-of-use assets		**544,868**	--
Amortization of servicing rights under agency arrangements	6	**10,584,285**	7,472,557
Allowance for expected credit loss		**--**	951,989
Finance charges		**599,245**	1,486,597
Employees' benefits charge for the period		**338,142**	332,975
Share-based payments		**2,249,999**	--
		24,147,009	17,441,009
Changes in operating assets and liabilities			
Net investment in finance leases and other receivables		**(23,886,036)**	(41,262,207)
Accounts payable and other current liabilities		**5,296,526**	47,045,650
Payable for properties for sale under finance leases		**(5,558,499)**	(3,689,300)
Cash flow (used in) generated from operations		**(1,000)**	19,535,152
Employees' benefits paid		**(18,694)**	--
Financial charges paid		**(2,338,396)**	(1,638,587)
Zakat paid	7	**(2,704,665)**	--
Net cash (used in) / generated from operating activities		**(5,062,755)**	17,896,565
Investing activities			
Purchase of property and equipment		**(419,287)**	(57,715)
Financing activities			
Proceeds from loans and borrowings		**--**	157,800,000
Repayments of loans and borrowings		**(94,935,217)**	(140,760,499)
Payment of lease liabilities		**(480,039)**	--
Net cash (used in) / generated from financing activities		**(95,415,256)**	17,039,501
(Decrease) / increase in cash and cash equivalents		**(100,897,298)**	34,878,351
Cash and cash equivalents at beginning of the period		**342,170,594**	69,797,410
Cash and cash equivalents at end of the period		**241,273,296**	104,675,761

The accompanying notes 1 through 10 form an integral part of these condensed interim financial statements.

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

Dar Al Tamleek Company ("the Company") is a Saudi Closed Joint Stock Company, incorporated under the Ministerial Resolution No. 155 dated Jumada Awal 5, 1429H (corresponding to May 11, 2008). The Company is registered in the Kingdom of Saudi Arabia under Commercial Registration No. 4030180844 dated Rajab 9, 1429H (corresponding to July 12, 2008) and fully owned by Saudi shareholders.

Pursuant to the promulgation of Real Estate Finance Law ("Real Estate Finance Law") in the Kingdom of Saudi Arabia, the Company applied for, and received license from the Saudi Arabian Monetary Agency ("SAMA") to operate as a leasing entity under the Real Estate Finance Law on Safar 28, 1435H, corresponding to December 31, 2013.

The Company is authorized to operate in the Kingdom of Saudi Arabia for the purpose of financing through, purchase, sale and ownership of land and real estate units, except in the cities of Makkah and Al Medina.

The Company's core operating activities comprise of the following:

a) Originating real estate finance leases.
b) Arranging real estate finance leases on behalf of third parties.
c) Sale of originated portfolio of real estate leases to third parties.
d) Serving real estate finance leases on behalf of third parties.

The Company operates through its following registered branches:

Branch	Commercial Registration No.
Riyadh	1010278650
Jeddah	4030194954
Jeddah	4030263817
Al Khobar	2050075914

The Company's head office is located at the following address:

Burj Al-Makhmal, Al-Roudah Street,
P. O. Box 55026, Jeddah 21534,
Kingdom of Saudi Arabia.

2. BASIS OF PREPARATION

(a) Statement of compliance

During 2017, Saudi Arabian Monetary Authority (SAMA) issued a Circular no. 381000074519 dated 11 April 2017 and subsequent amendments through certain clarifications relating to the accounting for Zakat and income tax. The impact of these amendments is that Zakat and income tax are to be accrued on a quarterly basis and recognized in statement of shareholders' equity with a corresponding liability recognized in the statement of financial position.

Applying the above framework, the condensed interim financial statements of the Company for the three-month period ended March 31, 2019 have been prepared using the International Accounting Standard 34 "Interim Financial Reporting" (IAS 34) and SAMA guidance on accounting for Zakat and Income Tax.

The Company also prepares its condensed interim financial statements to comply with the requirements of SAMA regulations applicable to Real Estate Finance Entities and its By-Laws. The condensed interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's annual financial statements for the year ended December 31, 2018.

(b) Basis of measurement

The condensed interim financial statements have been prepared under the historical cost convention, except for cash-settled share-based payments and financial investments held as available for sale / fair value through other comprehensive income ("FVOCI") which are measured at fair value.

(c) Functional and presentation currency

These condensed interim financial statements are presented in Saudi Arabian Riyals ("SR") which is the Company's functional currency.

(d) Critical accounting judgements, estimates and assumptions

The preparation of condensed interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these condensed interim financial statements, the significant judgments made by management in applying the Company's accounting policies are the same as those that applied to the annual financial statements for the year ended December 31, 2018.

2. BASIS OF PREPARATION (continued)

(d) Critical accounting judgements, estimates and assumptions (continued)

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected by the revision. The key areas requiring significant management judgments and estimates are as follows:

(i) Servicing rights under agency arrangements

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

(ii) Impairment charge for expected credit losses

The Company exercises judgement and applies the use of various assumptions in the determination of expected credit losses

(iii) Share-based payments

The Company grants share value appreciation rights to key employees that entitle them to a cash payment after a stipulated period of service. The amount of cash payment is determined based on the increase in share price of the Company between grant date and the time of exercise using discounted cash flow method which encompasses assumptions such as growth rate, equity risk premium, alpha and beta factors.

(iv) Employees' benefits

The cost of the defined benefit plan (end of service benefits) and the present value of the end of service benefits obligation are determined using external actuarial valuations. An external actuarial valuation involves making various assumptions that may differ from actual developments in the future.

These include the determination of the discount rate and future salary increases. Due to the complexity of the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

(v) Going concern

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern.

2. BASIS OF PREPARATION (continued)

(e) Impact of changes in accounting policies due to adoption of new standards

The accounting policies adopted in the preparation of these condensed interim financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31 December 2018, except for the adoption of the following new standards and amendments to existing standards mentioned below:

Implication of new standards

Effective 1 January 2019 the Company has adopted IFRS 16 leases, the impact of the adoption of this standard is explained below:

IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model. Lessor accounting under IFRS16 is substantially unchanged from IAS17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Company is the lessor.

The Company adopted IFRS 16 using the retrospectively with the cumulative effect method of adoption with the date of initial application of 1 January 2019. The Company elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Company also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The effect of adoption IFRS 16 is as follows:

On transition to IFRS 16, the Company recognized additional; right-of-use assets and additional lease liabilities, recognizing the difference in retained earnings. The impact of transition is summarized below:

	January 1, 2019
Right-of-use assets	9,864,098
Lease liabilities	(11,676,368)
Retained earnings	(1,812,270)

2. BASIS OF PREPARATION (continued)

(e) Impact of changes in accounting policies due to adoption of new standards (continued)

Implication of new standards (continued)

IFRS 16 Leases (continued)

Nature of effect of IFRS 16

The Company has lease contracts for Head office premises and branches' premises, thereon until 31 December 2018 (i.e. before the adoption of IFRS16), the Company classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Company; otherwise it was classified as an operating lease. In an operating lease, the leased property was not capitalized and the lease payments were recognized as rent expense in the statement of income on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognized under other assets and other liabilities respectively.

Upon adoption of IFRS 16, the Company has applied a single recognition and measurement approach for all leases in which it is the lessee, except for short-term leases and leases of low-value assets. The Company has recognized lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets under lease arrangements. In accordance with the retrospectively with the cumulative effect method of adoption, the lessee shall not restate comparative information. Instead, the lessee shall recognise the cumulative effect of initially applying this Standard as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application. Accordingly, comparative information in these financial statements has not been restated.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies, estimates and assumptions used in the preparation of these condensed interim financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2018, except for the policies explained below. Based on the adoption of new standards, the following accounting policies are applicable effective 1 January 2019 replacing / amending or adding to the corresponding accounting policies set out in the financial statements of the Company for the year ended 31 December 2018.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Set out below are the new accounting policies of the Company upon adoption of IFRS 16:

Policy applicable on or after 1 January 2019

Right of use assets

The Company recognizes right-of-use assets at the commencement date of the lease(i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the internal cost of funds as the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset. Lease liabilities are included within other liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Policy applicable on or after 1 January 2019 (continued)

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Significant judgement in determining the lease term of contracts with renewal options

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Company has the option, under some of its leases to lease the assets for additional terms of one to five years. The Company applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

4. CASH AND CASH EQUIVALENTS

At March 31, 2019, Cash and cash equivalents, comprise of the following:

	March 31, 2019	December 31, 2018
Cash in hand	**19,288**	21,589
Cash at bank (Note 4.1)	**241,254,008**	342,149,005
	241,273,296	342,170,594

4.1 Cash at bank includes Murabaha deposit amounting to SR 80.1 million (December 31, 2018: SR 174.1 million), carrying profit at commercial rate.

5. NET INVESTMENT IN FINANCE LEASES

5.1 At March 31, 2019, net investment in finance leases comprises of the following:

As at March 31, 2019	Current portion	Non-current portion	March 31, 2019
Gross investment in finance leases	45,184,963	561,614,205	606,799,168
Less: Unearned finance income	(27,457,566)	(222,790,612)	(250,248,178)
	17,727,397	**338,823,593**	**356,550,990**
Allowance for expected credit loss			**(22,449,892)**
Net investment in finance leases			**334,101,098**

As at December 31, 2018	Current portion	Non-current portion	December 31, 2018
Gross investment in finance leases	45,817,209	556,926,222	602,743,431
Less: Unearned finance income	(27,656,841)	(220,262,216)	(247,919,057)
	18,160,368	336,664,006	354,824,374
Allowance for expected credit loss			(23,202,857)
Net investment in finance leases			331,621,517

5.2 Maturity analysis of the gross investment in finance lease is as follows:

	March 31, 2019	December 31, 2018
Less than 1 year	**45,184,963**	45,817,209
1 to 5 years	**219,585,641**	224,051,415
Over 5 years	**342,028,564**	332,874,807
	606,799,168	602,743,431

6. SERVICING RIGHTS UNDER AGENCY ARRANGEMENTS

During the three-month period ended March 31, 2019, additions to servicing rights under agency arrangements amounted to SR 20.9 million (March 31, 2018: SR 6.8 million) while amortization for the period amounted to SR 10.6 million (March 31, 2018: SR 7.5 million).

Income from agency agreements during the three-month period ended March 31, comprises of the following:

	2019	2018
Servicing fee income	**12,839,960**	11,753,603
Income on recognition of servicing rights	**20,855,448**	6,806,081
	33,695,408	18,559,684

7. Zakat

The Company is calculating Zakat accruals for the year 2019 based on the new Zakat rules for financing activities.

Subsequent to year ended on December 31, 2018 the Company reached a settlement agreement with the General Authority for Zakat & Income Tax (GAZT), to settle the Zakat Liability amounting to SAR 13.5 million for the years from 2014 to 2017. The settlement agreement requires the company to settle the 20% of the agreed Zakat Liability in the current year and the remaining to be settled over a period of five years.

Zakat has been computed for the year ended 31 December 2018 in line with the basis of settlement agreement with GAZT.

8. BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the total comprehensive income for the period by the weighted average number of shares outstanding during the period. The calculation of diluted earnings per share is not applicable to the Company.

9. FINANCIAL RISK MANAGEMENT - CREDIT RISK

Credit risk grades

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

Determining whether credit risk has increased significantly

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

The credit risk of a particular exposure is deemed to have increased significantly since initial recognition, which is determined under basis of Company's staging criteria.

Modified financial assets

The contractual terms of investment in finance leases may be modified for a number of reasons, including changing market conditions, other factors not related to a current or potential credit deterioration of the customer.

When the terms of a financial asset or lease are modified and the modification does not result in de-recognition, the determination of whether the asset's credit risk has increased significantly is completed on the basis of the approved staging criteria.

Definition of 'Default'

A default is considered to have occurred with regard to a particular obligor when either or both of the two following events have taken place:

- The obligor is past due for 90 days or more on any material credit obligations to the Company including principal instalments, interest payments and fees.

- The Company considers that the obligor is unlikely to pay its credit obligations in full, without recourse by the Company to actions such as realizing security (if any).

Incorporation of forward looking information

The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on consideration of a variety of external actual and forecast information, the Company formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. External information includes economic data and forecasts published by governmental bodies and monetary authorities in the Kingdom and selected private sector and academic forecasters.

9. FINANCIAL RISK MANAGEMENT - CREDIT RISK (continued)

Measurement of ECL

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

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

a) probability of default (PD);
b) loss given default (LGD);
c) exposure at default (EAD).

PD estimates are estimates at a certain date, which are calculated, based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally and externally compiled data comprising both quantitative and qualitative factors.

LGD is the magnitude of the likely loss if there is a default. The Company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For investment in finance lease secured by retail property, LTV ratios are a key parameter in determining LGD.

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

The Company measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk, even if, for risk management purposes, the Company considers a longer period. The maximum contractual period extends to the date at which the Company has the right to require repayment of the investment in finance lease commitment or guarantee.

Collateral

The Company uses a wide variety of techniques to reduce credit risk on its lending; one important credit risk mitigation technique is accepting collaterals with appropriate coverage. The Company ensures that the collateral held is sufficiently liquid, legally effective and regularly valued. The method and frequency of revaluation depends on the nature of the collateral involved.

10. APPROVAL OF FINANCIAL INFORMATION

The condensed interim financial statements were authorized for issue by the management on Shaban 23, 1440H, corresponding to April 28, 2019.