

DAR AL-ETIMAN AL SAUDI COMPANY
(A Saudi Closed Joint Stock Company)

CONDENSED INTERIM FINANCIAL INFORMATION
FOR THE THREE-MONTH AND THE NINE-MONTH PERIODS ENDED
SEPTEMBER 30, 2019 (UNAUDITED)
AND REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

DAR AL-ETIMAN AL SAUDI COMPANY
(A Saudi Closed Joint Stock Company)
UNAUDITED CONDENSED INTERIM FINANCIAL INFORMATION
FOR THE THREE-MONTH AND NINE-MONTH PERIODS SEPTEMBER 30, 2019

	Page
Report on review of interim financial information	2
Condensed interim statement of financial position	3
Condensed interim statement of comprehensive income	4
Condensed interim statement of changes in shareholders' equity	5
Condensed interim statement of cash flows	6
Notes to the condensed interim financial information	7 - 14



Report on review of interim financial information

To the shareholders of Dar Al-Etiman Al Saudi Company:
(A Saudi Closed Joint Stock Company)

Introduction

We have reviewed the accompanying condensed interim statement of financial position of Dar Al-Etiman Al Saudi Company as of September 30, 2019 and the related condensed interim statement of comprehensive income for the three-month and nine-month periods ended September 30, 2019 and the condensed interim statements of changes in shareholders' equity and cash flows for the nine-month period then ended and notes, comprising a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with International Accounting Standard 34 - "Interim Financial Reporting" ("IAS 34"), as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity", as 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, as endorsed in the Kingdom of Saudi Arabia, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information is not prepared, in all material respects, in accordance with IAS 34, as endorsed in the Kingdom of Saudi Arabia.

PricewaterhouseCoopers

Mufaddal A. Ali
License Number 447

October 24, 2019



PricewaterhouseCoopers, License No. 25,
Jameel Square, P.O. Box 16415, Jeddah 21464, Kingdom of Saudi Arabia
T: +966 (12) 610-4400, F: +966 (12) 610-4411, www.pwc.com/middle-east

DAR AL-ETIMAN AL SAUDI COMPANY
(A Saudi Closed Joint Stock Company)
Condensed interim statement of financial position
(All amounts in Saudi Riyals unless otherwise stated)

	Note	As at	
		September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Assets			
Cash and cash equivalents	4	17,294,548	9,138,511
Net investment in finance lease	5	117,633,480	227,622,421
Prepayments and other receivables	6	60,775,994	78,078,927
Zakat refundable	10	8,605,420	9,281,143
Financial asset at fair value through other comprehensive income		892,850	892,850
Property and equipment		767,365	543,285
Total assets		205,969,657	325,557,137
Shareholders' equity and liabilities			
Shareholders' equity			
Share capital	7	100,000,000	100,000,000
Statutory reserve	8	4,454,606	4,454,606
Retained earnings		9,879,893	7,278,819
Total shareholders' equity		114,334,499	111,733,425
Liabilities			
Trade and other payables	11	59,283,639	189,884,541
Accrued and other liabilities	9	7,328,198	7,572,328
Net servicing liability under agency agreement	14	22,326,354	13,718,870
Employee benefit obligations		2,696,967	2,647,973
Total liabilities		91,635,158	213,823,712
Total shareholders' equity and liabilities		205,969,657	325,557,137

These condensed interim financial information have been approved by the Company's management and signed on their behalf by:

Director

Chief Financial Officer

The accompanying notes form an integral part of these condensed interim financial information.

DAR AL-ETIMAN AL SAUDI COMPANY
(A Saudi Closed Joint Stock Company)
Condensed interim statement of comprehensive income
(All amounts in Saudi Riyals unless otherwise stated)

	Note	For the three-month period ended September 30,		For the nine-month period ended September 30,	
		2019 (Unaudited)	2018 (Unaudited) Restated	2019 (Unaudited)	2018 (Unaudited) Restated
Income					
Income from finance leases		5,670,934	9,956,103	19,064,675	23,954,896
Net income from finance lease receivable sold to financial institutions		-	-	10,762,284	-
Other income		1,088,549	351,059	3,826,083	2,731,271
Total income		6,759,483	10,307,162	33,653,042	26,686,167
Expenses					
Finance charges		-	(1,277,356)	(1,158,416)	(3,003,170)
General and administrative expenses		(5,143,665)	(5,111,642)	(15,178,805)	(16,369,375)
Allowance for impairment on investment in finance lease	5	(699,999)	(1,200,000)	(4,099,665)	(4,370,312)
Other operating costs		(2,313,245)	(3,898,225)	(9,939,359)	(11,962,626)
Total expenses		(8,156,909)	(11,487,223)	(30,376,245)	(35,705,483)
(Loss) income for the period before Zakat		(1,397,426)	(1,180,061)	3,276,797	(9,019,316)
Zakat expense		(193,777)	(750,000)	(675,723)	(2,250,000)
(Loss) income for the period		(1,591,203)	(1,930,061)	2,601,074	(11,269,316)
Other comprehensive income		-	-	-	-
Total comprehensive (loss) income for the period		(1,591,203)	(1,930,061)	2,601,074	(11,269,316)

These condensed interim financial information have been approved by the Company's management and signed on their behalf by:

Director

Chief Financial Officer

The accompanying notes form an integral part of these condensed interim financial information.

DAR AL-ETIMAN AL SAUDI COMPANY
(A Saudi Closed Joint Stock Company)
Condensed interim statement of changes in shareholders' equity
 (All amounts in Saudi Riyals unless otherwise stated)

	Share capital	Statutory reserve	Retained earnings/ Accumulated loss	Total
January 1, 2019 (audited)	100,000,000	4,454,606	7,278,819	111,733,425
Income for the period	-	-	2,601,074	2,601,074
Other comprehensive income for the period	-	-	-	-
Total comprehensive income for the period	-	-	2,601,074	2,601,074
September 30, 2019 (unaudited)	100,000,000	4,454,606	9,879,893	114,334,499
January 1, 2018 (audited)	100,000,000	4,454,606	7,318,395	111,773,001
Loss for the period	-	-	(11,269,316)	(11,269,316)
Other comprehensive income for the period	-	-	-	-
Total comprehensive loss for the period, as restated	-	-	(11,269,316)	(11,269,316)
September 30, 2018 (unaudited)	100,000,000	4,454,606	(3,950,921)	100,503,685

These condensed interim financial information have been approved by the Company's management and signed on their behalf by:

Director

Chief Financial Officer

The accompanying notes form an integral part of these condensed interim financial information.

DAR AL-ETIMAN AL SAUDI COMPANY
(A Saudi Closed Joint Stock Company)
Condensed interim statement of cash flows
(All amounts in Saudi Riyals unless otherwise stated)

		For the nine-month period ended September 30,	
		2019	2018
Note		(Unaudited)	(Unaudited)
Cash flows from operating activities			
	Income (loss) for the period before zakat	3,276,797	(9,019,316)
<u>Adjustments for:</u>			
	Depreciation on property and equipment	513,214	340,931
5	Impairment charge against investment in finance lease	4,099,665	4,370,312
	Provision for employee benefit obligations	396,391	433,605
	Finance charges	1,158,416	3,003,170
<u>Changes in working capital:</u>			
	Prepayments and other receivables	(11,397,604)	(3,440,294)
	Trade and other payables	(131,759,318)	55,350,078
	Accrued and other liabilities	(244,130)	(1,281,236)
	Net servicing liability under agency agreement	8,607,484	(8,681,675)
	Net cash (utilized in) generated from operations	(125,349,085)	41,075,575
	Employee benefit obligations paid	(347,397)	(563,508)
	Zakat paid	-	(3,624,718)
	Net cash (utilized in) generated from operating activities	(125,696,482)	36,887,349
Cash flow from investing activities			
	Cash received on sale of investment in finance lease	146,281,343	-
	Investment in finance lease	(40,392,067)	(62,342,668)
	Release of restricted deposit	28,700,537	16,753,796
	Additions to property and equipment	(737,294)	(26,382)
	Net cash generated from (utilized in) investing activities	133,852,519	(45,615,254)
	Net change in cash and cash equivalents	8,156,037	(8,727,905)
	Cash and cash equivalents at beginning of the period	9,138,511	21,121,002
4	Cash and cash equivalents at end of the period	17,294,548	12,393,097

These condensed interim financial information have been approved by the Company's management and signed on their behalf by:



Director



Chief Financial Officer

The accompanying notes form an integral part of these condensed interim financial information.

**DAR AL-ETIMAN AL SAUDI COMPANY
(A Saudi Closed Joint Stock Company)**

Notes to the condensed interim financial information for the three-month and nine-month periods ended September 30, 2019

(All amounts in Saudi Riyals unless otherwise stated)

1. General information

Dar Al-Etiman Al Saudi Company (the "Company") is principally engaged in providing lease financing for motor vehicles within the Kingdom of Saudi Arabia. The Company's head office is located at Prince Sultan Street, P.O. Box 55274, Jeddah 21534, Saudi Arabia.

The Company is incorporated as a Saudi Closed Joint Stock Company ("SCJSC") pursuant to Ministerial Resolution No. 486/Q dated Jumad-ul-Thani 11, 1436 (corresponding to June 30, 2015). Prior to its conversion to a Saudi closed joint stock company, the Company was operating as a Limited Liability Company ("LLC") registered in the Kingdom of Saudi Arabia under Commercial Registration number 4030165101 issued in Jeddah on Dhul-Qada 5, 1427H (corresponding to December 5, 2006).

In accordance with requirements of Article 6 of the Implementing Regulation of the Law of Supervision of Finance Companies, Company has obtained a license No. 33/AM/201505 from Saudi Arabian Monetary Authority (SAMA) to conduct finance lease activities on Rajab 16, 1436 (corresponding to May 5, 2015).

The accompanying condensed interim financial information include the accounts of the Company's head office and all its branches.

2. Basis of preparation

The condensed interim financial information of the Company as at and for the three-month and nine-month periods ended September 30, 2019 have been prepared in accordance with International Accounting Standard 34 (IAS 34) 'Interim Financial Reporting' ("IAS 34") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organisation for Certified Public Accountants ("SOCPA").

The financial statements of the Company as at and for the period and year ended March 31, 2019 and December 31, 2018, respectively, were prepared in compliance with the IAS 34 and the International Financial Reporting Standards ("IFRS") respectively, as modified by SAMA for the accounting of zakat and income tax (relating to the application of IAS 12 – "Income Taxes" and IFRIC 21 – "Levies" so far as these relate to zakat and income tax) and the Banking Control Law and the Regulations for Companies in the Kingdom of Saudi Arabia.

On July 17, 2019, SAMA instructed the finance companies in the Kingdom of Saudi Arabia to account for the zakat 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 Organisation for Certified Public Accountants ("SOCPA") (collectively referred to as "IFRS as endorsed in KSA").

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

The condensed interim financial information do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual financial statements for the year ended December 31, 2018. The Company has adopted IFRS 16 'Leases' from January 1, 2019 and accounting policies due to adoption of this standard are disclosed in Note 3.

These condensed interim financial information are expressed in Saudi Riyals, which is the Company's functional and reporting currency.

These condensed interim financial information have been reviewed, not audited.

New and amended standards adopted by the Company

The impact of the adoption of the leasing standard and the new accounting policy for zakat are disclosed in Note 3 below. The other standards did not have any impact on the Company's accounting policies and did not require retrospective adjustments.

DAR AL-ETIMAN AL SAUDI COMPANY
(A Saudi Closed Joint Stock Company)

Notes to the condensed interim financial information for the three-month and nine-month periods ended September 30, 2019

(All amounts in Saudi Riyals unless otherwise stated)

2. Basis of preparation (continued)

Impact of standards issued but not yet applied by the Company

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial information are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective:

Standard/ Interpretation	Description	Effective from periods beginning on or after
Amendments to IFRS 3 – definition of a business	This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations	January 1, 2020
Amendments to IAS 1 and IAS 8 on the definition of material	These amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRSs: i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting; ii) clarify the explanation of the definition of material; and iii) incorporate some of the guidance in IAS 1 about immaterial information	January 1, 2020
IFRS 17 Insurance Contracts	The standard allows a choice between recognising changes in discount rates either in the statement of profit or loss or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9. An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.	

The adoption of above IFRS or IFRS interpretations and amendments are not expected to have a significant impact on the financial statements. There are no other relevant IFRS or IFRS interpretations that are not yet effective that would be expected to have a material impact on the Company's financial statements

Use of estimate

The preparation of these condensed interim financial information 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. Such judgements, estimates, and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advices and expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and in future periods if the revision affects both current and future periods and there were no material changes in the judgment and estimates made by the Company in preparation of the accompanying condensed interim financial information as compared to December 31, 2018 except for the estimates for determining the lease term stated in Note 3.

In addition, results for the three-month and nine-month periods ended September 30, 2019 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2018.

3. Change in accounting policies

The accounting policies used in the preparation of these condensed interim financial information are consistent with those used in the preparation of the Company's annual financial statements for the year ended December 31, 2018 except for the policies for accounting of 'leases' and 'zakat' which are explained below:

a) Impact of adoption of IFRS 16

The Company has adopted IFRS 16 'leases' retrospectively using the modified approach from January 1, 2019, and therefore has not restated comparative information, as permitted under the specific transitional provisions in the standard. The new accounting policy of the Company for leases is as follows:

The Company recognises a right-of-use asset and lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset to restore the underlying asset or the site on which it is located, less any lease incentives received.

DAR AL-ETIMAN AL SAUDI COMPANY
(A Saudi Closed Joint Stock Company)

Notes to the condensed interim financial information for the three-month and nine-month periods ended September 30, 2019

(All amounts in Saudi Riyals unless otherwise stated)

3. Significant accounting policies (continued)

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, then the Company's incremental borrowing rate is used.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- amounts expected to be payable by the lessee under residual value guarantees;
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease liability is measured at amortised cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When a lease liability is re-measured in this way, corresponding adjustment is made to the carrying amount of the right-of-use, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

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

Extension options

Extension options are included in the lease contracts for office premises of the Company. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension options held are exercisable only by mutual agreement of the Company and the respective lessor.

Critical judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option. Extension options are only included in the lease term if the lease is reasonably certain to be extended. The 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.

On January 1, 2019, all the leases of the Company are for a period of less than twelve months. Consequently, the Company has elected not to recognise right-of-use assets and lease liabilities against such leases under IFRS 16. Therefore, the adoption of IFRS 16 and change in the accounting policy for leases did not have any significant impact on the condensed interim financial information of the Company

Below is the reconciliation of operating lease commitments disclosed as at December 31, 2018 to January 1, 2019:

	Saudi Riyals
Operating lease commitments disclosed as at December 31, 2018	1,334,525
Less: short-term leases	(1,334,525)
Lease liability recognized as at January 1, 2019	-

DAR AL-ETIMAN AL SAUDI COMPANY
(A Saudi Closed Joint Stock Company)

Notes to the condensed interim financial information for the three-month and nine-month periods ended September 30, 2019

(All amounts in Saudi Riyals unless otherwise stated)

3. Significant accounting policies (continued)

b) Change in the accounting for zakat

As mentioned above, the basis of preparation has been changed for the period ended September 30, 2019, based on the latest instructions from SAMA dated July 17, 2019. Previously, zakat was recognized in the statement of changes in equity as per the SAMA circular no 381000074519 dated 11 April 2017. As per SAMA instructions dated July 17, 2019, the zakat shall be recognized in the condensed interim statement of income. The Company has accounted for this change in the accounting for zakat retrospectively (see Note 15) and the effects of the above change are disclosed in Note 15 to the condensed interim financial information. The change has resulted in reduction of reported income of the Company for the period ended September 30, 2018 by Saudi Riyals 2.25 million. The change has had no impact on the statement of cash flows for the period ended September 30, 2018.

The Company is subject to zakat in accordance with the regulations of the General Authority of Zakat and Tax (the "GAZT"). Zakat expense is charged to the statement of income. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined. Zakat is not accounted for as income tax and as such no deferred tax is calculated relating to zakat.

The Company withhold taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law.

4. Cash and cash equivalents

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Cash in hand	1,195,641	415,352
Cash at banks	16,098,907	8,723,159
	17,294,548	9,138,511

5. Investment in finance lease

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Gross investment in finance lease	196,619,660	349,727,662
Less: Unearned finance income and other related credits	(46,499,750)	(93,496,611)
	150,119,910	256,231,051
Less: Impairment against investment in finance lease	(32,486,430)	(28,608,630)
Net investment in finance lease	117,633,480	227,622,421

The Company's implicit rate of return on leases ranges between 9% and 11% per annum (2018: between 9% and 11% per annum). These are secured by promissory notes from the customer and against leased assets.

Amounts due after one year represents minimum lease payments under finance lease contracts, which are due for payment by customers after one year from the statement of financial position date.

Following are the scheduled maturities of the net investment in finance lease:

Twelve months period ending September 30:

2020	30,833,095
2021	32,426,277
2022	21,438,106
2023	15,481,343
2024	17,454,659
	117,633,480

DAR AL-ETIMAN AL SAUDI COMPANY
(A Saudi Closed Joint Stock Company)

Notes to the condensed interim financial information for the three-month and nine-month periods ended September 30, 2019

(All amounts in Saudi Riyals unless otherwise stated)

5. Investment in finance lease (continued)

During the nine-month period ended September 30, 2019, the Company has sold its finance lease receivables (investment in finance lease) amounting to Saudi Riyals 188.5 to a financial institution and derecognized the same from its books and recorded a net gain of Saudi 10.76 on such derecognition (2018: nil). Also, the Company had sold and derecognized finance lease receivables in prior years. Outstanding position of such sold receivables has been disclosed in Note 14. Further, the Company has entered into an arrangement for servicing such sold finance lease receivables on behalf of the financial institutions. In respect of these sold finance lease receivables, the Company acts in the capacity of a servicing agent for subsequent collection of lease instalments on behalf of the financial institutions. The Company has calculated and accounted for a net servicing liability under such agreement with these financial institutions as explained in Note 14.

5.1 The movement in impairment of investment finance lease is as follows:

	September 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
Opening	28,608,630	28,188,728
Charged	4,099,665	4,800,000
Write-offs	(221,865)	(4,380,098)
Closing	32,486,430	28,608,630

5.2 Category-wise allowance for impairment in investment in finance lease is as follows:

	September 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
Performing	49,880	337,734
Under-performing	413,981	2,883,274
Non-performing	32,022,569	25,387,622
	32,486,430	28,608,630

6. Prepayments and other receivables

		September 30, 2019	December 31, 2018
	Note	(Unaudited)	(Audited)
Restricted deposits	6.1	44,508,946	57,164,574
Prepaid insurance		10,012,616	10,700,138
Receivable from employees		1,775,421	1,498,764
Insurance claims receivable		4,373,536	7,618,039
Other prepayments and receivables		105,475	1,097,412
		60,775,994	78,078,927

6.1 The Company has been appointed as a servicing agent for the sold receivables to the financial institutions therefore the financial institutions require the Company to keep certain balance as restricted deposit against such services for sold receivables. These deposits are released at the end of securitization contracts and are recorded at their amortised cost. The non-current portion of these restricted deposits is amounting to Saudi Riyals 44.5 million (2018: Saudi Riyals 43.3 million). During the nine-month period ended September 30, 2019, Saudi Riyals 16 million (2018: nil) were withheld by the bank from the proceeds against sale of such lease receivables. Also, see Note 5.

7. Share capital

The share capital of the Company comprises of 100,000 shares stated at Saudi Riyals 1,000 per share owned as follows:

		Shareholding percentage	
	Country of incorporation	September 30, 2019	December 31, 2018
		(Unaudited)	(Audited)
Modern Ajwad for Commercial Investment Company Limited	Saudi Arabia	60%	60%
Tawad Holding Company	Saudi Arabia	40%	40%
		100%	100%

DAR AL-ETIMAN AL SAUDI COMPANY
(A Saudi Closed Joint Stock Company)

Notes to the condensed interim financial information for the three-month and nine-month periods ended September 30, 2019

(All amounts in Saudi Riyals unless otherwise stated)

8. Statutory reserve

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia, the Company is required to allocate 10% of its net income each year to a statutory reserve, after any accumulated deficit is absorbed, until such reserve equals 30% of its share capital. This reserve is not currently available for distribution to the shareholders.

9. Accrued and other liabilities

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Employee related accruals	4,253,938	3,924,177
Advances from customers	497,841	516,952
Accrued board of directors remuneration	480,000	540,000
Other accruals	2,096,419	2,591,199
	7,328,198	7,572,328

10. Zakat matters

The Company has filed its zakat declarations with the General Authority of Zakat and Tax (GAZT) up to 2018.

Subsequent to year ended December 31, 2018, the Company received a settlement notice from GAZT for a refund amounting to Saudi Riyals 9.7 million which was recorded during the year ended December 31, 2018. This refund amount relates to prior year excess zakat payment due to change in zakat calculation by GAZT for finance lease companies.

Also, GAZT has provided a revised formula for computation of zakat from the year 2019. The Company has computed zakat charge for the current quarter based on such revised formula and recognized a provision in the income statements with the corresponding credit to the zakat refundable in statement of financial position.

The management believes that the provision recognized in the condensed interim financial information is sufficient to meet the current and previous zakat obligations and no further provision is required.

11. Related party transactions and balances

During the three-month and nine-month periods ended September 30, 2019, the Company had transactions with following related parties:

Name	Relationship
Universal Motors Agencies ("UMA")	Affiliate
Key management personnel	Connected persons

The significant transactions and related amounts are as follows:

	Three-month period ended		Nine-month period ended	
	September 30, 2019 (Unaudited)	September 30, 2018 (Unaudited)	September 30, 2019 (Unaudited)	September 30, 2018 (Unaudited)
Purchase of motor vehicles	24,711,954	60,722,068	67,875,384	122,023,530
Finance cost charged by UMA	-	1,357,098	1,158,416	3,155,767

Compensation of key management personnel

	Three-month period ended		Nine-month period ended	
	September 30, 2019 (Unaudited)	September 30, 2018 (Unaudited)	September 30, 2019 (Unaudited)	September 30, 2018 (Unaudited)
Salaries and bonuses accrued to key management personnel	348,785	152,580	856,205	460,680
Employee benefit obligations	13,649	8,272	38,010	24,540
Directors remuneration	180,000	135,000	480,000	405,000

DAR AL-ETIMAN AL SAUDI COMPANY
(A Saudi Closed Joint Stock Company)

Notes to the condensed interim financial information for the three-month and nine-month periods ended September 30, 2019

(All amounts in Saudi Riyals unless otherwise stated)

Payable to a related party

Significant period end balance arising from transactions with a related party is as follows:

		September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Universal Motors Agencies	Affiliate	<u>17,861,709</u>	149,782,303

Remaining balance of trade and other payables represents other payables and the temporary timing differences of amounts collected from customers and payable to banks against securitization and agency agreement. All these amounts are payable within next twelve months.

12. Financial risk management

The Company's activities are exposed to a variety of financial risks which mainly include market risk (including foreign exchange risk, interest rate risk and price risk) credit risk and liquidity risk. The condensed interim financial information do not include all financial risk management information and disclosures required in the annual financial statements; and therefore should be read in conjunction with the Company's annual financial statements for the year ended December 31, 2018. There have been no changes in the risk management policies since the year end.

13. Seasonality of operations

The principal activity of the Company is to provide finance lease services to customers and its activities are evenly spread throughout the year.

14. Finance lease receivables – securitization and agency agreements

In accordance with the terms of certain securitization and agency agreements, the Company has sold finance lease receivables to various financial institutions.

The outstanding position of such off statement of financial position finance lease receivables is as follows:

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Finance lease receivables sold under securitization agreements	<u>249,097,538</u>	175,477,025

Maturity profile of finance lease receivable sold under securitized deals are as follows:

	September 30, 2019 (unaudited)	
	Less than one year	One to five year
Securitization agreements	<u>90,503,651</u>	<u>158,593,887</u>
	December 31, 2018 (Audited)	
	Less than one year	One to five year
Securitization agreements	<u>89,976,120</u>	<u>85,500,905</u>

Net servicing liability under agency agreements

Under the securitization and agency agreements, the Company has been appointed by the financial institutions to service the purchased receivables. Where the Company is appointed to service the derecognized financial assets for a fee, the Company initially recognizes either a net servicing asset or a net servicing liability for that servicing contract at its fair value.

The fair value of net servicing asset/ liability is determined based on the present value of estimated future cash flows related to contractually specified servicing fees less servicing costs. The primary determinants of the fair value of net servicing asset/ liability are discount rates, estimates of servicing costs and the fixed servicing fees. The management assesses the cost of servicing including salaries and other direct costs. The annual change in the servicing cost represents the increment to the servicing cost as a result of inflation.

Variations in one or a combination of these assumptions could materially affect the estimated values of net servicing liability.

DAR AL-ETIMAN AL SAUDI COMPANY
(A Saudi Closed Joint Stock Company)

Notes to the condensed interim financial information for the three-month and nine-month periods ended September 30, 2019

(All amounts in Saudi Riyals unless otherwise stated)

15. Restatement due to change in accounting treatment relating to zakat

The change in the accounting treatment for zakat (as explained in Note 3) has the following impact on the line items of the interim statements of income, financial position and changes in shareholders' equity:

As at and for the nine-month period ended September 30, 2018:

Financial information impacted	Account	Before the restatement for the nine-month period ended September 30, 2018 (Unaudited)	Effect of restatement relating to zakat	As restated as at and for the nine-month period ended September 30, 2018 (Unaudited)
Condensed interim statement of changes in shareholders' equity	Zakat charge for the period (retained earnings)	2,250,000	(2,250,000)	-
Condensed interim statement of comprehensive income	Zakat expense	-	2,250,000	2,250,000

As at and for the three-month period ended September 30, 2018:

Financial information impacted	Account	Before the restatement for the three-month period ended September 30, 2018 (Unaudited)	Effect of restatement relating to zakat	As restated as at and for the three-month period ended September 30, 2018 (Unaudited)
Condensed interim statement of changes in shareholders' equity	Provision for zakat (retained earnings)	750,000	(750,000)	-
Condensed interim statement of comprehensive income	Zakat expense	-	750,000	750,000

The above change in accounting policy did not have any effect on the condensed interim statement of financial position as of December 31, 2018 and the condensed interim statement of cash flows for the nine-month period ended September 30, 2019.

16. Date of authorisation of issue

The accompanying condensed interim financial information was authorized for issuance by the Company's management on October 24, 2019.