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

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
AND INDEPENDENT AUDITOR'S REPORT

**DAR AL-ETIMAN AL SAUDI COMPANY**
**(A Saudi Closed Joint Stock Company)**
**FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED DECEMBER 31, 2018**


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# *Independent auditor's report to the shareholders of Dar Al Etiman Al Saudi 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 Dar Al Etiman Al Saudi Company (the "Company") as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as modified by Saudi Arabian Monetary Authority (SAMA) for the accounting of zakat and income tax.

**What we have audited**

The Company's financial statements comprise:

- the statement of financial position as at December 31, 2018;
- the statement of comprehensive income for the year then ended;
- 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 a 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 *Auditor's 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 International Financial Reporting Standards as modified by SAMA for the accounting of zakat and income tax and the applicable requirements of the Regulations for Companies and the Company's By-laws, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## *Auditor's responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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.

*Independent auditor's report to the shareholders of Dar Al Etiman Al Saudi Company (continued)*

## Report on other legal and regulatory requirements

Based on the information that has been made available to us, nothing has come to our attention that causes us to believe that the Company is not in compliance, in all material respects, with the applicable requirements of the Regulations for Companies and the Company's By-laws in so far as they affect the preparation and presentation of the financial statements.

**PricewaterhouseCoopers**

Mufaddal Ali
License Number 447

March 4, 2019

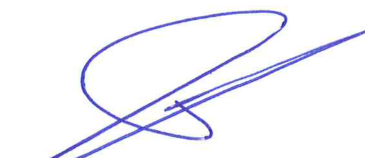
**DAR AL-ETIMAN AL SAUDI COMPANY**
**(A Saudi Closed Joint Stock Company)**
**Statement of financial position**
(All amounts in Saudi Riyals unless otherwise stated)

| | Note | As at December 31, 2018 | 2017 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 5 | **9,138,511** | 21,121,002 |
| Net investment in finance lease | 6 | **227,622,421** | 183,875,023 |
| Deposits, prepayments and other receivables | 7 | **78,078,927** | 94,108,586 |
| Zakat refundable | 14 | **9,281,143** | |
| Available-for-sale investment | 8 | **-** | 892,850 |
| Financial asset at fair value through other comprehensive income | 8 | **892,850** | - |
| Property and equipment | 9 | **543,285** | 961,534 |
| **Total assets** | | **325,557,137** | 300,958,995 |
| | | | |
| **Shareholders' equity and liabilities** | | | |
| | | | |
| **Shareholders' equity** | | | |
| Share capital | 10 | **100,000,000** | 100,000,000 |
| Statutory reserve | 11 | **4,454,606** | 4,454,606 |
| Retained earnings | | **7,278,819** | 11,093,566 |
| **Total shareholders' equity** | | **111,733,425** | 115,548,172 |
| | | | |
| **Liabilities** | | | |
| Accounts payable | 12 | **189,884,541** | 146,353,349 |
| Accrued and other liabilities | 13 | **7,572,328** | 7,929,797 |
| Provision for zakat | 14 | **-** | 3,613,807 |
| Net servicing liability under agency agreement | 22 | **13,718,870** | 24,696,769 |
| Post-employment benefits | 15 | **2,647,973** | 2,817,101 |
| **Total liabilities** | | **213,823,712** | 185,410,823 |
| | | | |
| **Total shareholders' equity and liabilities** | | **325,557,137** | 300,958,995 |

The accompanying notes form an integral part of these financial statements

These financial statements have been approved by the management on March 4, 2019 and signed on their behalf by:

Director



Chief Financial Officer

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

| | Note | Year ended December 31, 2018 | 2017 |
|---|---|---|---|
| **Income** | | | |
| Lease income | | **34,001,552** | 36,138,999 |
| Income from sale of finance lease receivables, net | 6 | **-** | 13,498,025 |
| Other income | 17 | **4,330,580** | 7,860,246 |
| **Total income** | | **38,332,132** | 57,497,270 |
| | | | |
| **Expenses** | | | |
| Finance cost | 12 | **(5,461,296)** | (7,067,754) |
| General and administrative | 18 | **(20,990,009)** | (26,913,308) |
| Allowance for impairment on investment in finance lease | 6 | **(4,800,000)** | (10,939,658) |
| Other operating costs | 19 | **(16,390,635)** | (11,531,837) |
| Total expenses | | **(47,641,940)** | (56,452,557) |
| | | | |
| **(Loss)/profit for the year** | | **(9,309,808)** | 1,044,713 |
| Other comprehensive income | | **-** | - |
| **Total comprehensive (loss)/income for the year** | | **(9,309,808)** | 1,044,713 |

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

These financial statements have been approved by the management on March 4, 2019 and signed on their behalf by:

Director

Chief Financial Officer

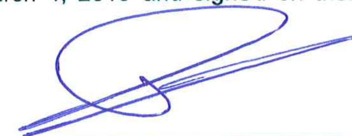
DAR AL-ETIMAN AL SAUDI COMPANY
(A Saudi Closed Joint Stock Company)
Statement of changes in shareholders' equity
(All amounts in Saudi Riyals unless otherwise stated)

| | Note | Share capital | Statutory reserve | Retained earnings | Total |
|---|---|---|---|---|---|
| **Balance as at January 1, 2017** | | 100,000,000 | 4,350,135 | 13,999,221 | 118,349,356 |
| Total comprehensive income for the year | | - | - | 1,044,713 | 1,044,713 |
| Transfer to statutory reserve | | - | 104,471 | (104,471) | - |
| Zakat charge for the year | | - | - | (3,845,897) | (3,845,897) |
| **Balance as at December 31, 2017** | | 100,000,000 | 4,454,606 | 11,093,566 | 115,548,172 |
| Impact of IFRS 9 (Note 2 and 6) | | - | - | (3,775,171) | (3,775,171) |
| **Adjusted balance as at January 1, 2018** | | **100,000,000** | **4,454,606** | **7,318,395** | **111,773,001** |
| Total comprehensive loss for the year | | - | - | **(9,309,808)** | **(9,309,808)** |
| Zakat refund for prior years | 14 | - | - | **9,600,796** | **9,600,796** |
| Zakat charge for the year | 14 | - | - | **(330,564)** | **(330,564)** |
| **Balance as at December 31, 2018** | | **100,000,000** | **4,454,606** | **7,278,819** | **111,733,425** |

The accompanying notes form an integral part of these financial statements

These financial statements have been approved by the management on March 4, 2019 and signed on their behalf by:

Director



Chief Financial Officer

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

| | Note | Year ended December 31, 2018 | 2017 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| (Loss)/profit for the year | | **(9,309,808)** | 1,044,713 |
| Adjustments for: | | | |
| Depreciation on property and equipment | 9 | **451,516** | 454,492 |
| Impairment charge against investment in finance lease | 6 | **4,800,000** | 10,939,658 |
| Provision for post-employment benefits | 15 | **564,428** | 620,264 |
| Finance cost | | **5,439,322** | (7,067,754) |
| Changes in working capital: | | | |
| Prepayments and other receivables | | **(724,137)** | (3,630,927) |
| Restricted deposits | | **16,753,796** | 23,827,238 |
| Accounts payable | | **38,091,870** | (19,748,630) |
| Accrued and other liabilities | | **(357,469)** | (78,451) |
| Net servicing liability under agency agreement | | **(10,977,899)** | (4,811,299) |
| Cash generated from operations | | **44,731,619** | 1,549,304 |
| Post-employment benefits paid | 15 | **(733,556)** | (771,475) |
| Zakat paid | 14 | **(3,624,718)** | (3,478,881) |
| Net cash generated from / (utilized in) operating activities | | **40,373,345** | (2,701,052) |
| **Cash flow from investing activities** | | | |
| Investment in finance lease | | **(52,322,569)** | (129,956,601) |
| Cash received on sale of finance lease receivables | | **-** | 137,919,500 |
| Additions to property and equipment | 9 | **(33,267)** | (132,630) |
| Available-for-sale investment | | **-** | (892,850) |
| Net cash (utilized in) / generated from investing activities | | **(52,355,836)** | 6,937,419 |
| Net change in cash and cash equivalents | | **(11,982,491)** | 4,236,367 |
| Cash and cash equivalents at the beginning of the year | | **21,121,002** | 16,884,635 |
| **Cash and cash equivalents at the end of the year** | 5 | **9,138,511** | 21,121,002 |

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

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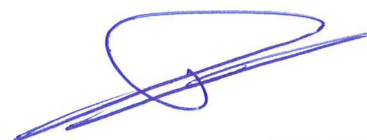
Director



Chief Financial Officer

## 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 March 31, 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, the Company has obtained license No. 33/AM/201605 from Saudi Arabian Monetary Authority (SAMA) to conduct finance lease activities on Rajab 16, 1436 (corresponding to May 5, 2015).

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

## 2. Statement of compliance and basis of preparation

Compliance with IFRS

The financial statements of the Company have been prepared in accordance with 'International Financial Reporting Standards (IFRS) as modified by SAMA for the accounting of zakat and income tax', which requires, adoption of all IFRSs as issued by the International Accounting Standards Board ("IASB") except for the application of International Accounting Standard (IAS) 12 - "Income Taxes" and IFRIC 21 - "Levies" so far as these relate to zakat and income tax. As per the SAMA Circular no. 381000074519 dated April 11, 2017 and subsequent amendments through certain clarifications relating to the accounting for zakat and income tax ("SAMA Circular"), the zakat and income tax are to be accrued on a quarterly basis through shareholder equity under retained earnings.

Historical cost convention

The financial statements have been prepared on a historical cost basis except for certain financial assets and liabilities that are measured at fair value.

### 2.1 Adoption of new and revised standards

**New IFRS, International Financial Reporting and Interpretations Committee's interpretations (IFRIC) and amendments thereof, adopted by the Company**

The Company has adopted amendments and revisions to existing standards, if any, which were issued by the International Accounting Standards Board (IASB) effective for the financial reporting period commencing on or after January 1, 2018:

***IFRS 9 'Financial instruments'***

The Company has adopted IFRS 9 'Financial Instruments' (IFRS 9) issued in July 2014 with a date of initial application of January 1, 2018 (the date of initial application of IFRS 9). The requirements of IFRS 9 represents a significant change from IAS 39 'Financial Instruments: Recognition and Measurement' (IAS 39). The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As per transition provisions of IFRS 9, comparative periods have not been restated. A difference in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings as at January 1, 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

The key changes in accounting policies resulting from adoption of IFRS 9 are summarised below:

**(i) Classification and measurement of financial assets and financial liabilities**

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost ("AC"), fair value through other comprehensive income ("FVTOCI") and fair value through profit or loss ("FVPL"). This classification is generally based, except equity instruments and derivatives, on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. For an explanation of how the Company classifies financial assets under IFRS 9, see respective section of significant accounting policies (Note 3).

## 2. Statement of compliance and basis of preparation (continued)

### 2.1 Adoption of new and revised standards (continued)

IFRS 9 largely retains the existing requirements of IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognized in the statement of comprehensive income, under IFRS 9, fair value changes are presented as follows:

- The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in other comprehensive income; and
- The remaining amount of change in the fair value is presented in profit or loss.

Management has assessed which business models apply to the financial assets and liabilities held by the Company and has classified its financial instruments into the appropriate IFRS 9 categories. The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Company's financial assets and financial liabilities as at January 1, 2018:

| | Note | Original classification under IAS 39 | New classification under IFRS 9 | Original carrying value under IAS 39 | New carrying value under IFRS 9 |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and cash equivalents | | Loans and receivables | Amortised cost | 21,121,002 | 21,121,002 |
| Available-for-sale investment | (a) | Available-for-sale investment | Financial asset at fair value through other comprehensive income | 892,850 | 892,850 |
| Restricted deposits | | Amortised cost | Amortised cost | 72,551,827 | 72,551,827 |
| Other receivables (included within prepayments and other receivables) | | Loans and receivables | Amortised cost | 7,756,455 | 7,756,455 |
| **Financial liabilities** | | | | | |
| Accounts payable and due to related parties | | Other financial liabilities at amortised cost | Amortised cost | 146,353,349 | 146,353,349 |
| Other liabilities and accruals | | Other financial liabilities at amortised cost | Amortised cost | 7,929,797 | 7,929,797 |
| Net servicing liability under agency agreement | | Other financial liabilities at amortised cost | Amortised cost | 24,696,769 | 24,696,769 |

*(a) Reclassification of investments from available-for-sale to FVOCI*

At January 1, 2018, the Company designated an investment in equity instrument as at FVTOCI. In 2017, this investment was classified as available-for-sale and measured at cost. The investment does not meet the IFRS 9 criteria for classification at amortised cost or any other category, because it is held as long-term strategic investment by the Company that is not expected to be sold in the short to medium term. Furthermore, there are no contractual cash flows of this investment. There was no impact on the amount recognised in relation to this investment from the adoption of IFRS 9.

*(b) Other assets and liabilities*

There was no impact on the amounts recognised in relation to all other financial assets and liabilities from the adoption of IFRS 9.

## 2. Statement of compliance and basis of preparation (continued)

### 2.1 Adoption of new and revised standards (continued)

#### (ii) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model ("ECL"). IFRS 9 requires the Company to record an allowance for ECLs for all its receivables against investment in finance lease and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

The Company has investments in finance lease that is subject to IFRS 9's new expected credit loss model. The Company has adopted general model in accordance with the requirements of IFRS 9. Cash and restricted deposits are placed with banks with sound credit ratings. Cash at bank, restricted deposits, advances to employees and other receivables are considered to have low credit risk therefore 12 months expected loss model was used for impairment assessment. Based on management impairment assessment there is no provision required in respect of these balances for all the period presented. No impairment loss was recognised on the other classes of financial assets.

Following is the impact of adoption of new expected credit loss model of IFRS 9:

| | Net investment in finance lease | Retained earnings |
|---|---|---|
| Closing balance under IAS 39 (December 31, 2017) | 183,875,023 | 11,093,566 |
| Recognition of expected credit loss under IFRS 9 | (3,775,171) | (3,775,171) |
| **Opening balance under IFRS 9 (January 1, 2018)** | **180,099,852** | **7,318,395** |

***Other standards and interpretations adopted by the Company effective from January 1, 2018***

| ***Standard/ Interpretation*** | ***Description*** |
|---|---|
| Amendments to IFRS 2, 'Share based payments' | This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority. |
| Amendments to IFRS 4, 'Insurance contracts' regarding the implementation of IFRS 9, 'Financial instruments' | These amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard will:<br>• give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued; and<br>• give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard – IAS 39. |
| Amendment to IAS 40, 'Investment property' relating to transfers of investment property | These amendments clarify that to transfer to, or from, investment properties there must be a change in use. If a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence. |

## 2. Statement of compliance and basis of preparation (continued)

### 2.1 Adoption of new and revised standards (continued)

| Standard/ Interpretation | Description |
|---|---|
| Annual improvements 2014–2016 | These amendments impact two standards:<br>IAS 28, 'Investments in associates and joint ventures' regarding measuring an associate or joint venture at fair value |
| IFRIC 22, 'Foreign currency transactions and advance consideration' | This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/ receipts are made. The guidance aims to reduce diversity in practice. |

The adoption of the aforementioned other standards, amendments to the published approved accounting standards and new interpretations did not have any significant impact on these financial statements.

**New standards, amendments to the published approved accounting standards and new interpretations that are not yet effective and have not been early adopted by the Company**

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. The listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt these standards when they become effective.

| *Standard/ Interpretation* | *Description* | *Effective from periods beginning on or after* |
|---|---|---|
| Amendment to IFRS 9, 'Financial instruments', on prepayment features with negative compensation | This amendment confirm that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from IAS 39 | January 1, 2019 |
| Annual improvements 2015–2017 | These amendments includes minor changes to the following standards:<br>• IFRS 3, 'Business combinations', – a company remeasures its previously held interest in a joint operation when it obtains control of the business.<br>• IFRS 11, 'Joint arrangements', – a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.<br>• IAS 23, 'Borrowing costs' – a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale. | January 1, 2019 |

## 2. Statement of compliance and basis of preparation (continued)

### 2.1 Adoption of new and revised standards (continued)

| Standard/ Interpretation | Description | Effective from periods beginning on or after |
|---|---|---|
| Amendments to IAS 19, 'Employee benefits' on plan amendment, curtailment or settlement | These amendments require an entity to:<br>• use updated assumptions to determine current service cost and net interest for the reminder of the period after a plan amendment, curtailment or settlement; and<br>• recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling. | January 1, 2019 |
| IFRS 16 'Leases' | This standard replaces the current guidance in International Accounting Standards (IAS) 17 and is a far-reaching change in accounting by lessees in particular. | January 1, 2019 |
| 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 |

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.

## 3. Summary of significant accounting policies

Except for the change in accounting policies resulting from new and amended IFRS and IFRIC guidance, as detailed in note 2 above, the accounting policies adopted in the preparation of these financial statements are consistent with those used in the preparation of the annual financial statements for the year ended December 31, 2017.

The following is a summary of significant accounting policies applied by the Company:

### 3.1 Cash and cash equivalents

Cash and cash equivalents include cash in hand and with banks and other short-term highly liquid investments, if any, with original maturities of three months or less from the purchase date, which are available to the Company without any restrictions.

### 3.2 Investment in finance lease

Leases are classified as finance leases whenever the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Amounts due from lessees under finance lease are recognized as receivables at the amount of the Company's net investments in the leases. Finance lease income is allocated to the accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases.

Gross investment in finance lease represents the gross lease payments receivable to the Company, and the net investment in finance lease represents the present value of these lease payments including any guaranteed residual value, discounted at interest rate implicit in the lease. The difference between the gross investment in finance lease and unearned finance income represents net investment in finance lease which is stated net of allowance for impairment.

## 3. Summary of significant accounting policies (continued)

### 3.3 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and impairment, if any. 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 recognized 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 derecognized when replaced.

All other repairs and maintenance are charged to statement of other comprehensive income during the reporting period in which they are incurred. Depreciation is provided over the estimated useful lives of the applicable assets using the straight-line method. The estimated rates of depreciation of the principal classes of assets are as follows:

| | **Number of years** |
|---|---|
| • Leasehold improvements | 10 |
| • Furniture and fixtures | 10 |
| • Motor vehicles | 4 |
| • Office equipment | 3 - 10 |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in comprehensive income.

### 3.4 Accounts payable

These amounts represent liabilities for goods and services provided to the Company prior to the end of financial year which are unpaid. The amounts are unsecured. Accounts payables are presented as current liabilities unless payment is not due within 12 months after the reporting period.

### 3.5 Foreign currency translation

Functional and presentation currency

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

Transactions and balances

Transactions in foreign currencies are translated into Saudi Riyals at the exchange rates prevailing at transaction date. At the end of each reporting period, monetary assets and liabilities, denominated in foreign currencies, are retranslated into Saudi Riyals at the exchange rates prevailing at that date. Foreign exchange gains or losses on settlement and translation of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of comprehensive income in the period in which they arise.

Non-monetary items carried at fair value which are denominated in foreign currencies are retranslated using the exchange rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

### 3.6 Zakat

The Company is subject to zakat in accordance with the regulations of the General Authority of Zakat and Tax (the "GAZT"). Provision for zakat for the Company is charged to the statement of changes in shareholders' equity. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

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.

## 3. Summary of significant accounting policies (continued)

### 3.7 Post-employment benefits

*Short-term employee benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

*Post-employment obligation*

The Company operates a post-employment benefit scheme of defined benefit plans driven by the labour laws requirement in the Kingdom of Saudi Arabia for the Company.

The post-employment benefits plans are not funded. Accordingly, valuations of the obligations under those plans are carried out by an independent actuary based on the projected unit credit method. The costs relating to such plans primarily consist of the present value of the benefits attributed on an equal basis to each year of service and the interest on this obligation in respect of employee service in previous years.

Current and past service costs related to post-employment benefits are recognised immediately in the statement of the comprehensive income while unwinding of the liability at discount rates used are recorded as financial cost. Any changes in net liability due to actuarial valuations and changes in assumptions are taken as re-measurement in the other comprehensive income.

Re-measurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in other comprehensive income.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are also recognised immediately in the statement of comprehensive income as past service costs.

### 3.8 Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Company as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to statement of comprehensive income on a straight-line basis over the period of the lease.

### 3.9 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested 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 asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

### 3.10 Provisions

Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

## 3. Summary of significant accounting policies (continued)

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation to its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

### 3.11 Revenue recognition - Finance lease and other operating income

*i) Lease income*

Finance lease income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

a. POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset.
b. Financial assets that are not 'POCI' but have subsequently become credit-impaired (or 'stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

The difference between the aggregate lease contract receivable and the cost of the leased assets plus initial direct costs is recorded as unearned lease finance income. The initial direct costs, which include amounts such as commissions and legal fees that are incremental and directly attributable to negotiating and arranging a lease, are included in the initial measurement of the finance lease receivable and reduce the amount of income recognized over the lease term. The interest rate implicit in the lease is defined in such a way that the initial direct costs are included automatically in the finance lease receivable. Lease payments relating to the year are applied against lease receivables to reduce both the principal and the unearned finance income.

*(ii) Net income from finance lease receivable sold to financial institutions*

Income from finance lease receivables sold to the financial institution is recognized when the Company sells lease receivables to the bank and de-recognizes them from the financial statements. Income is reduced by the discount charged by the financial institution, accrued insurance cost in respect of assets leased under sold receivables and incidental cost of arrangement including those to be incurred as servicing agent.

*(iii) Other operating income*

It is recorded when earned and realized.

### 3.12 Financial Instruments

***a) Accounting policies applied for financial instruments effective from January 1, 2018:***

*Classification of financial assets*

The Company classifies its financial assets under the following categories:

- Fair value through profit or loss (FVTPL);
- Fair value through other comprehensive income (FVTOCI); and
- Amortised cost.

These classifications are on the basis of business model of the Company for managing the financial assets, and contractual cash flow characteristics.

The Company measures financial asset at amortised cost when it is within the business model to hold assets in order to collect contractual cash flows, and contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

## 3. Summary of significant accounting policies (continued)

### 3.12 Financial Instruments (continued)

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income.

*Initial measurement*

At initial recognition, financial assets or financial liabilities are measured at their fair value. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. In the case of financial assets or financial liabilities not at fair value through profit or loss, its fair value plus or minus transaction costs that

are directly attributable to the acquisition or issue of the financial asset or financial liability is the initial recognition amount. Trade receivables are measured at transaction price.

*Classification of financial liabilities*

The Company designates a financial liability at fair value through profit or loss if doing so eliminates or significantly reduces measurement or recognition inconsistency or where a group of financial liabilities is managed and its performance is evaluated on a fair value basis.

These amounts represent liabilities for goods and services provided to the Company prior to the end of the year which are unpaid. The amounts are unsecured and are usually paid within 12 months of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

All other financial liabilities are subsequently measured at amortised cost using the effective interest rate method.

*Offsetting financial assets and liabilities*

Financial assets and liabilities are offset so that the net amount reported in the statement of financial position where the Company currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

*Reclassifications*

Financial assets are reclassified when the Company changes its business model for managing financial assets. For example, when there is a change in management's intention to hold the asset for a short term or long term. Financial liabilities are not reclassified.

*Subsequent measurement*

Subsequent measurement of financial assets is as follows:

**Amortised cost**: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

**FVTOCI**: 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 interest, are measured at FVTOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of comprehensive income.

**FVTPL**: Assets that do not meet the criteria for amortised cost or FVTOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in statement of comprehensive income and presented net within other gains/(losses) in the period in which it arises.

## 3. Summary of significant accounting policies (continued)

### 3.12 Financial Instruments (continued)

*Equity instruments*

The Company subsequently measures all equity investments at fair value. Where the Company's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Company's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVTOCI are not reported separately from other changes in fair value.

*De-recognition*

The Company derecognises a financial asset when, and only when the contractual rights to the cash flows from financial asset expire, or it transfers substantially all the risks and rewards of ownership of the financial asset.

Financial liabilities are derecognised when the obligations specified in the contract is discharged, cancelled or expires. A substantial change in the terms of a debt instrument is considered as an extinguishment of the original liability and the recognition of a new financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment.

*Modification*

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, The Company recalculates the gross carrying amount of the financial asset and recognise a modification gain or loss in statement of comprehensive income. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate (or credit adjusted effective interest rate for purchased or originated credit-impaired financial assets) or, when applicable, the revised effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

For financial liabilities, if an exchange or change in the terms of a debt instrument do not qualify for de-recognition it is accounted for as modification of the financial liability. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

*Impairment*

From January 1, 2018, the Company assesses on a forward looking basis the expected credit losses associated with its financial assets. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Previously, the Company was using incurred loss model to assess the credit losses.

For net investment in finance leases, the Company applies the three-stage model ('general model') for impairment based on changes in credit quality since initial recognition.

Stage 1 includes financial instruments that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date. For these assets, 12-month expected credit losses ('ECL') are recognised and interest revenue is calculated on the gross carrying amount of the asset (that is, without deduction for credit allowance). 12-month ECL are the ECL that result from default events that are possible within 12 months after the reporting date. It is not the expected cash shortfalls over the 12-month period but the entire credit loss on an asset, weighted by the probability that the loss will occur in the next 12 months.

Stage 2 includes financial instruments that have had a significant increase in credit risk since initial recognition, unless they have low credit risk at the reporting date, but that do not have objective evidence of impairment. For these assets, lifetime ECL are recognised, but interest revenue is still calculated on the gross carrying amount of the asset. Lifetime ECL are the ECL that result from all possible default events over the maximum contractual period during which the Company is exposed to credit risk. ECL are the weighted average credit losses, with the respective risks of a default occurring as the weights.

## 3. Summary of significant accounting policies (continued)

### 3.12 Financial Instruments (continued)

Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime ECL are recognised and interest revenue is calculated on the net carrying amount (that is, net of credit allowance).

The Company, when determining whether the credit risk on a financial instrument has increased significantly, considers reasonable and supportable information available, in order to compare the risk of a default occurring at the reporting date with the risk of a default occurring at initial recognition of the financial instrument. Other instruments are considered as low risk and the Company uses a provision matrix in calculating the expected credit losses.

Financial assets are written off only when:

(i) the lease or other receivable is at least one year past due, and

(ii) there is no reasonable expectation of recovery.

Where financial assets are written off, the Company continues to engage enforcement activities to attempt to recover the lease receivable due. Where recoveries are made, after write-off, are recognized as other income in the statement of comprehensive income.

**b)** ***Accounting policies applied for financial instruments until December 31, 2017:***

*(i) Classification*

The Company classifies its financial assets in the following categories:
- financial assets at fair value through profit or loss,
- loans and receivables,
- held-to-maturity investments, and
- available-for-sale financial assets.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting period.

*(ii) Reclassification*

The Company may choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Company may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or available-for-sale categories if the Company has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortized cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

*(iii) Recognition and derecognition*

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognized in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

## 3. Summary of significant accounting policies (continued)

### 3.12 Financial Instruments (continued)

*(iv) Measurement*

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

Loans and receivables and held-to-maturity investments are subsequently carried at amortized cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value are recognized as follows:

- for 'financial assets at fair value through profit or loss' – in profit or loss within other income or other expenses.
- for available-for-sale financial assets that are monetary securities denominated in a foreign currency – translation differences related to changes in the amortized cost of the security are recognized in profit or loss and other changes in the carrying amount are recognized in other comprehensive income.
- for other monetary and non-monetary securities classified as available-for-sale - in other comprehensive income.

Dividends on financial assets at fair value through profit or loss and available-for-sale equity instruments are recognized in profit or loss as part of revenue from continuing operations when the Company's right to receive payments is established.

Interest income from financial assets at fair value through profit or loss is included in the net gains/ (losses). Interest on available-for-sale securities, held-to-maturity investments and loans and receivables calculated using the effective interest method is recognized in the statement of profit or loss as part of revenue from continuing operations.

*(v) Impairment*

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset including investment in finance lease or group of financial assets is impaired. A financial asset including investment in finance lease or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or Company of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

<u>Assets carried at amortized cost</u>

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the statement of comprehensive income.

<u>Assets classified as available-for-sale</u>

If there is objective evidence of impairment for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in profit or loss.

Impairment losses on equity instruments that were recognized in profit or loss are not reversed through profit or loss in a subsequent period.

If the fair value of a debt instrument classified as available-for-sale increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

## 3. Summary of significant accounting policies (continued)

### 3.12 Financial Instruments (continued)

*(vi) Income recognition*

Finance income

Finance income is recognized using the effective interest method. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Finance income on impaired loans is recognized using the original effective interest rate.

Dividends

Dividends are recognized as revenue when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence.

*(vii) Financial liabilities*

Financial liabilities are classified according to the substance of the contractual arrangements entered into. Significant financial liabilities include bank loans, accounts payable and due to a related party and are stated at their nominal value. Bank loans are subsequently measured at amortized cost applying the effective interest method.

*Derecognition of financial liabilities*

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

*(viii) Effective interest method*

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Income or expense is recognized on an effective interest basis for debt instruments, other than those financial instruments classified as fair value through profit or loss.

### 3.13 Reclassification

Following reclassification has been made in the comparative 2017 financial information to conform to 2018 presentation:

*Statement of comprehensive income*
For better presentation, an amount of Saudi Riyals 13,241,093 for the year ended December 31, 2017 has been reclassified from ‘fee and other processing income’ to ‘lease income’ in the statement of comprehensive income.

## 4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Company's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

*Critical judgements in applying accounting policies*

The following are the critical judgments, apart from those involving estimations, that the management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

*a) Measurement of expected credit loss allowance*

The measurement of expected credit loss allowance for the financial assets measured at amortised cost and FVTOCI is the area that requires the use of models and significant assumptions about future economic conditions and credit behavior (for eg likelihood of customer defaulting and resulting losses). Explanation of inputs, assumptions, and estimation techniques used in measuring ECL is further detailed in Note 20.2, which also sets out the key sensitivities of the ECL to change these elements.

## 4 Critical accounting judgments and key sources of estimation uncertainty (continued)

A number of significant judgments are also required in applying accounting requirements for measuring the ECL, such as:

- Determining the criteria for significant increase in credit risk
- Choosing appropriate models and assumptions for measurement of ECL
- Establishing the number and relative weighting of forward-looking scenarios for each type of industrial sector and associated ECL
- Establishing group of similar financial assets for the purpose of measuring ECL.

Detailed information about the judgements and estimates made by the company in the above areas is set out in Note 20.2.

*b) Fair value measurement*

The Company measures financial instruments at fair value at each reporting date. The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

*c) Going concern*

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

## 5. Cash and cash equivalents

| | 2018 | 2017 |
|---|---|---|
| Cash in hand | **415,352** | 1,434,475 |
| Cash at banks | **8,723,159** | 19,686,527 |
| | **9,138,511** | 21,121,002 |

## 6. Net investment in finance lease

| | Note | 2018 | 2017 |
|---|---|---|---|
| Gross investment in finance lease | | **349,727,662** | 280,919,018 |
| Less: Unearned finance income and other related credits | | **(93,496,611)** | (72,630,438) |
| | | **256,231,051** | 208,288,580 |
| Less: Allowance for impairment against investment in finance lease | 6.2 | **(28,608,630)** | (24,413,557) |
| Net investment in finance lease | | **227,622,421** | 183,875,023 |

### 6.1 Details of investment in finance lease

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Gross investments in finance lease | Unearned finance income and other related credits | Gross investments in finance lease | Unearned finance income and other related credits |
| Less than a year | **109,762,457** | **(34,492,677)** | 99,874,546 | (23,827,089) |
| One to five years | **239,965,205** | **(59,003,934)** | 181,044,472 | (48,803,349) |
| | **349,727,662** | **(93,496,611)** | 280,919,018 | (72,630,438) |

## 6 Net investment in finance lease (continued)

The title of the assets sold under finance lease agreements are held in the name of the Company.

The Company's implicit rate of return on leases ranges between 9% and 11% per annum (2017: 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 from one to five years:

Years ending December 31:

| | |
|---|---|
| 2020 | **47,269,220** |
| 2021 | **50,710,107** |
| 2022 | **46,508,698** |
| 2023 | **36,228,719** |
| 2024 | **244,527** |
| | **180,961,271** |

**6.2** The movement in allowance for impairment against net investment in finance lease is as follows:

| | **2018** | **2017** |
|---|---|---|
| Opening | **24,413,557** | 19,777,409 |
| Impact on adoption of IFRS 9 (Note 2.1) | **3,775,171** | - |
| Adjusted opening balance | **28,188,728** | 19,777,409 |
| Charged during the year | **4,800,000** | 10,939,658 |
| Write-offs | **(4,380,098)** | (6,303,510) |
| Closing | **28,608,630** | 24,413,557 |

**6.3** During 2017, the Company sold its finance lease receivables (investment in finance lease) amounting to Saudi Riyals 171.3 million to a financial institution and derecognized the same from its books and recorded a net gain of Saudi Riyals 13.5 million on such derecognition. Also, the Company had sold and derecognized finance lease receivables in prior years. Outstanding position of such sold receivables has been disclosed in Note 21. 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, which is disclosed in Note 21.

**6.4** An analysis of changes in allowance for impairment of investment in finance lease is as follows:

| | **12 month ECL** | **Life time ECL not credit impaired** | **Lifetime ECL credit impaired** | **Total** |
|---|---|---|---|---|
| **Allowance for impairment of investment as at January 1, 2018** | | | | |
| Transfers to 12 month ECL | 202,420 | 2,143,931 | 25,842,377 | 28,188,728 |
| Net charge for the year | 135,314 | 739,343 | 3,925,343 | 4,800,000 |
| Write-offs | - | - | (4,380,098) | (4,380,098) |
| **Allowance for impairment of investment as at December 31, 2018** | **337,734** | **2,883,274** | **25,387,622** | **28,608,630** |

## 7. Deposits, prepayments and other receivables

| | Note | 2018 | 2017 |
|---|---|---|---|
| Restricted deposits | 7.1 | **57,164,574** | 72,551,827 |
| Prepaid insurance | | **10,700,138** | 12,580,050 |
| Receivable from employees | | **1,498,764** | 1,869,603 |
| Other prepayments and receivables | | **8,715,451** | 7,107,106 |
| | | **78,078,927** | 94,108,586 |

**7.1** 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 finance lease receivables. These deposits will be released at the end of securitization contracts and are recorded at amortised cost. The non-current portion of these restricted deposits is amounting to Saudi Riyals 28.5 million (2017: Saudi Riyals 55.8 million).

## 8. Financial asset at fair value through other comprehensive income

During 2017, the Company contributed an amount of Saudi Riyals 892,850 in the share capital of Saudi Company for Lease Contracts Registration, a Saudi joint stock company registered (the "investee Company") in the Kingdom of Saudi Arabia. The Company holds 89,285 shares in the investee Company that represents 2% of total share capital of the investee Company. The investee Company is currently in development stage and has not yet started its operations. The management believes that the carrying value of the investment approximates to the fair value at December 31, 2018 and December 31, 2017.

## 9. Property and equipment

| | January 1, 2018 | Additions | Disposal | December 31, 2018 |
|---|---|---|---|---|
| **Cost** | | | | |
| Leasehold improvements | 3,803,063 | - | - | **3,803,063** |
| Furniture and fixtures | 3,764,044 | 9,901 | - | **3,773,945** |
| Motor vehicles | 451,014 | - | - | **451,014** |
| Office equipment | 1,046,960 | 23,366 | - | **1,070,326** |
| | 9,065,081 | 33,267 | - | **9,098,348** |
| **Accumulated depreciation** | | | | |
| Leasehold improvements | (3,022,361) | (356,468) | - | **(3,378,829)** |
| Furniture and fixtures | (3,614,833) | (58,842) | - | **(3,673,675)** |
| Motor vehicles | (451,014) | - | - | **(451,014)** |
| Office equipment | (1,015,339) | (36,206) | - | **(1,051,545)** |
| | (8,103,547) | (451,516) | - | **(8,555,063)** |
| | 961,534 | | | **543,285** |

| | January 1, 2017 | Additions | Disposal | December 31, 2017 |
|---|---|---|---|---|
| **Cost** | | | | |
| Leasehold improvements | 3,803,063 | - | - | 3,803,063 |
| Furniture and fixtures | 3,643,336 | 120,708 | - | 3,764,044 |
| Motor vehicles | 451,014 | - | - | 451,014 |
| Office equipment | 1,035,038 | 11,922 | - | 1,046,960 |
| | 8,932,451 | 132,630 | | 9,065,081 |
| **Accumulated depreciation** | | | | |
| Leasehold improvements | (2,665,892) | (356,469) | - | (3,022,361) |
| Furniture and fixtures | (3,550,194) | (64,639) | - | (3,614,833) |
| Motor vehicles | (447,453) | (3,561) | - | (451,014) |
| Office equipment | (985,516) | (29,823) | - | (1,015,339) |
| | (7,649,055) | (454,492) | - | (8,103,547) |
| | 1,283,396 | | | 961,534 |

## 10. Share capital

The share capital of the Company as of December 31, 2018 and 2017 was comprised of 100,000 shares stated at Saudi Riyals 1,000 per share owned as follows:

| | Nationality | Shareholding | |
|---|---|---|---|
| | | **2018** | **2017** |
| Modern Ajwad for Commercial Investment Co. Ltd. | Saudi | **60.0%** | 60.0% |
| Tawad Holding Company | Saudi | **40%** | 37.5% |
| Saudi Diesel Equipment Co. Ltd. | Saudi | **-** | 1.0% |
| Trans Arabian Technical Services Co. Ltd. | Saudi | **-** | 1.0% |
| Arabian Properties Co. Ltd. | Saudi | **-** | 0.5% |
| | | **100%** | 100% |

During the year, cumulative shareholding of 2.5% represented by Saudi Diesel Equipment Co. Ltd., Trans Arabian Technical Services Co. Ltd. and Arabian Properties Co. Ltd has been transferred to Tawad Holding Company and related legal formalities were completed.

## 11. Statutory reserve

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia, the Company is required to transfer 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.

## 12. Related party transactions

During 2018 and 2017, the Company has transactions with Universal Motors Agencies (“UMA”), an affiliate.

Significant transactions with UMA in the ordinary course of business included in the financial statements are summarized below:

| | **2018** | **2017** |
|---|---|---|
| Purchase of motor vehicles | **139,408,900** | 190,138,269 |
| Finance cost charged by UMA | **5,461,296** | 6,986,450 |

**Compensation of key management personnel**

The remuneration of directors and other members of key management during the year are as follows:

| | **2018** | **2017** |
|---|---|---|
| Salaries and bonuses paid / accrued to key management personnel | **713,549** | 1,789,114 |
| Remuneration of Board of Directors | **540,000** | 540,000 |
| End of service indemnities accrued during the year | **32,900** | 92,301 |

**Due to related party**

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

| | **Relationship** | **2018** | **2017** |
|---|---|---|---|
| Universal Motors Agencies | Affiliate | **149,782,303** | 110,519,256 |

Remaining balance of accounts payable represents other payables and the temporary timing differences of amounts collected from customers and payable to banks against securitization and agency agreement (Note 21). All these amounts are payable within next twelve months.

## 13. Accrued and other liabilities

| | 2018 | 2017 |
|---|---|---|
| Employee related accruals | **3,924,177** | 5,086,673 |
| Accrued board of directors remuneration | **540,000** | 540,000 |
| Advances from customers | **516,952** | 517,789 |
| Other accruals | **2,591,199** | 1,785,335 |
| | **7,572,328** | 7,929,797 |

## 14. Zakat matters

### 14.1 Components of zakat base

The significant components of the zakat base, under zakat and income tax regulations, is principally comprised of shareholders' equity, provisions at the beginning of year, and adjusted net income, less deductions for the net book value of property and equipment, and certain other items.

The principal elements of the zakat base are as follows:

| | 2018 | 2017 |
|---|---|---|
| Shareholders' equity at beginning of the year | **115,548,172** | 118,349,356 |
| Provisions at beginning of the year | **25,881,272** | 15,438,646 |
| Adjusted net (loss) / income for the year | **(3,945,377)** | 12,604,146 |
| Property and equipment | **(1,483,399)** | (1,839,868) |

Some of these amounts have been adjusted in arriving at the Company's zakat charge for the year.

### 14.2 Provision for zakat/(refundable)

| | Note | 2018 | 2017 |
|---|---|---|---|
| January 1 | | **3,613,807** | 3,246,791 |
| Provision for the year | | **330,564** | 3,845,897 |
| Zakat refund for prior years | 14.3 | **(9,600,796)** | - |
| Paid during the year | | **(3,624,718)** | (3,478,881) |
| December 31 | | **(9,281,143)** | 3,613,807 |

### 14.3 Status of final assessments

The Company has filed its zakat declarations with the General Authority of Zakat and Tax (GAZT) upto 2017. Subsequent to the year ended December 31, 2018, the Company received a settlement notice from GAZT stating the fact that from the year the Company was given a license from SAMA to be involved in finance lease activities till 2017 the Company has been given a refund from GAZT amounting to Saudi Riyals 9.7 million which is currently recorded in the financial statement as zakat refundable in the statement of financial position with a corresponding credit to retained earnings. Also, GAZT has provided a settlement formula to calculate zakat liability for the year ended December 31, 2018 which is calculated at ten percent of profit for the year including zakat charge or ten percent of the zakat charge for the year according to the executive regulations of zakat collection as per GAZT if the Company has incurred loss during the year. The management believes that the provision recognized in the financial statements is sufficient to meet the current and previous zakat obligations and no further provision is required.

## 15. Post-employment benefits

| | 2018 | 2017 |
|---|---|---|
| January 1 | **2,817,101** | 2,968,312 |
| Charge | **564,428** | 620,264 |
| Payments | **(733,556)** | (771,475) |
| December 31 | **2,647,973** | 2,817,101 |

## 16. Operating lease arrangements

| | 2018 | 2017 |
|---|---|---|
| Less than a year | **1,334,525** | 1,334,525 |

Operating lease payments represent rentals payable by the Company for office premises. Leases are negotiated for an average renewable term of 1 year and rentals are fixed for the same period.

## 17. Other income

| | 2018 | 2017 |
|---|---|---|
| Recovery against previously written-off investment in finance lease | **3,119,316** | 3,588,219 |
| Reversal of prior year excess accruals | **-** | 3,363,668 |
| Other | **1,211,264** | 908,359 |
| | **4,330,580** | 7,860,246 |

## 18. General and administrative expenses

| | Note | 2018 | 2017 |
|---|---|---|---|
| Salaries and allowances | | **14,087,343** | 20,382,864 |
| Professional charges | | **2,891,991** | 2,245,806 |
| Building rent | | **1,561,260** | 1,704,526 |
| Depreciation | 9 | **451,516** | 454,492 |
| Repair and maintenance | | **345,394** | 385,683 |
| Other | | **1,652,505** | 1,739,937 |
| | | **20,990,009** | 26,913,308 |

## 19. Other operating costs

| | 2018 | 2017 |
|---|---|---|
| Insurance cost | **10,777,928** | 6,642,556 |
| Losses due to early settlement of finance lease contracts | **5,612,707** | 4,889,281 |
| | **16,390,635** | 11,531,837 |

## 20. Financial risk management

The Company's activities are exposed to a variety of financial risks which mainly include market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial statements. The Board of Directors of the Company has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board is also responsible for developing and monitoring the Company's risk management policies.

### 20.1 Market risk

Market risk is the risk that the fair value or the future cash flows of a financial instrument may fluctuate as a result of changes in market profit rates or the market prices of securities due to change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market.

Market risk comprises of three types of risk: currency risk, interest rate risk and price risk.

#### 20.1.1 Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. As the Company's transactions are principally in Saudi Riyals, the Company is not exposed to currency risk.

#### 20.1.2 Cash flow and fair value interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates is limited as all the Company's financial assets have fixed interest rates. Applicable interest rates for the same have been disclosed in their respective notes.

#### 20.1.3 Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk) whether those changes are caused by factors specific to the individual financial instruments or it's issuer, or factors affecting all similar financial instruments traded in the market. As at December 31, 2018 and 2017, the Company has an investment in securities that are exposed to price risk, however, the impact has not been considered as the investee Company is yet to formalize and start operations and the cost of such investment is estimated to be its fair value.

### 20.2 Credit risk

#### 20.2 .1 Risk management

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The risk is generally limited to principal amounts and accrued profit thereon, if any. The Company has established procedures to manage credit exposure including credit approvals, credit limits, collateral and guarantee requirements. The Company also manages risk through a credit department which evaluates customers' credit worthiness and obtains adequate securities where applicable.

The Company's policy is to enter into financial instrument contract by following internal guidelines such as approving counterparties and approving credits.

## 20 Financial risk management (continued)

### 20.2 .2 Credit quality analysis

Concentration of credit risk arises when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentration of credit risk indicates the relative sensitivity of the Company's performance to developments affecting a particular industry or geographic location.

The Company provides leased assets to retail and fleet customers. Retail customers consist of individuals whereas the Company classifies small businesses as fleet customers. Concentration of the Company's customer base on the basis of percentage of the outstanding balance of gross investment in finance lease as at December 31 is as follows:

| | 2018 | 2017 |
|---|---|---|
| Retail | **97.6%** | 92.6% |
| Fleet | **2.4%** | 7.4% |
| | **100%** | 100% |

The Company has an effective system that allows it to evaluate customers' credit worthiness and identify potential problem accounts. An allowance for potential lease, installment and other loan losses is maintained at a level that, in the judgment of management, is adequate to provide for potential losses on lease, installment and other loan portfolio that can be reasonably anticipated.

The credit quality of receivables can be assessed with reference to their historical performance with no or some defaults in recent history. However, the rating for quality of Company's investments cannot be determined because the customer base of the Company consist of individual customers and small businesses for which such data is not readily available.

Out of the total assets of Saudi Riyals 325.6 million (2017: Saudi Riyals 300.9 million) the assets which were subject to credit risk amounted to Saudi Riyals 301.1 million (2017: Saudi Riyals 282 million).

The maximum exposure to credit risk at the reporting date is:

| | 2018 | 2017 |
|---|---|---|
| Net investment in finance lease | **227,622,421** | 183,875,023 |
| Restricted deposits | **57,164,574** | 72,551,827 |
| Other receivables | **7,618,039** | 5,886,852 |
| Cash at banks | **8,723,159** | 19,686,527 |
| | **301,128,193** | 282,000,229 |

Following tables set out the information about the credit quality of net investment in finance lease cost on the basis of Company's customers:

| | December 31, 2018 | | | | |
|---|---|---|---|---|---|
| | 12 month ECL | Life time ECL not credit impaired | Lifetime ECL credit impaired | Purchased credit impaired | Total |
| Fleet | **7,664** | **20,586** | **2,196,935** | **-** | **2,225,185** |
| Retail | **330,070** | **2,862,688** | **23,190,687** | **-** | **26,383,445** |
| | **337,734** | **2,883,274** | **25,387,622** | **-** | **28,608,630** |

## 20 Financial risk management (continued)

### 20.2 Credit risk (continued)

#### 20.2 .2 Credit quality analysis (continued)

The ageing of investment in finance lease which are past due but not considered impaired by the management is as follows:

| | 2018 | 2017 |
|---|---|---|
| Less than 90 days | **2,943,526** | 4,751,534 |
| 91-180 days | **2,099,089** | 2,619,508 |
| 181-365 days | **2,657,665** | 2,746,848 |
| More than 365 days | **23,243,515** | 21,917,748 |
| | **30,943,795** | 32,035,638 |

The credit quality of the Company's bank balances are assessed with reference to external credit ratings which, in all cases, are above investment grade rating. The bank balances along with credit ratings are tabulated below:

| | 2018 | 2017 |
|---|---|---|
| A- | **6,023,738** | 13,581,661 |
| BBB+ | **2,699,421** | 6,104,866 |
| | **8,723,159** | 19,686,527 |

#### 20.2 .3 Impairment

Cash at banks and restricted deposits are placed with banks with sound credit ratings which is given above. Cash at bank, advances to employees, restricted deposits with bank and other receivables are considered to have low credit risk; therefore, 12 months ECL model was used for impairment assessment. Based on management impairment assessment, there is no provision required in respect of these balances. The Company applies general impairment ECL model to measure the credit allowances against net investment in finance lease.

#### 20.2 .3.1 Measurement of ECL

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

(i) probability of default (PD);
(ii) loss given default (LGD);
(iii) exposure at default (EAD).

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.

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 compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD. If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The Company estimates LGD parameters based on the legal standing against the defaulting counterparties. The LGD models also consider the structure, collateral, net value, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the lease receivable.

EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current lease receivables to the customer and potential changes to the current amount allowed under the lease contract including amortization. The EAD of a lease receivable is its carrying amount.

As described above, and subject to using a maximum of a 12-month PD for lease receivables for which credit risk has not significantly increased, 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 instalment.

## 20. Financial risk management (continued)

### 20.2 Credit risk (continued)

#### 20.2 .3.2 Categorization

The Company categorize its investment in finance lease into Stage 1, Stage 2, Stage 3, as described below:

Stage 1: When lease receivables are first recognised, the Company recognises an allowance based on 12 months ECLs. Stage 1 receivables includes facilities where the receivable is less than 30 days past due and also where the credit risk has improved and the receivable has been reclassified from Stage 2.

Stage 2: When a receivable has shown a significant increase in credit risk since origination, the Company records an allowance for the Lifetime ECL. Stage 2 receivables include facilities where the receivable is 31 to 90 days past due and also where the credit risk has improved and the receivable has been reclassified from Stage 3.

Stage 3: Receivable considered credit-impaired. The Company records an allowance for the Lifetime ECL. Stage 3 receivables include all facilities where the receivable is more than 90 days past due.

POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

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

| | **December 31, 2018** | **January 1, 2018** |
|---|---|---|
| Stage 1 | **337,734** | 202,420 |
| Stage 2 | **2,883,274** | 2,143,931 |
| Stage 3 | **25,387,622** | 25,842,377 |
| | **28,608,630** | 28,188,728 |

#### 20.2 .3.3 Amounts arising from ECL – Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

***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 if, based on the Company's quantitative modeling, the remaining lifetime PD is determined to have increased significantly.

Using its expert credit judgment and, where possible, relevant historical experience, the Company may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Company considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the customer.

## 20. Financial risk management (continued)

### 20.2 Credit risk (continued)

#### 20.2 3.4 Modified financial assets

The Company renegotiates only the final lease payment i.e. balloon payment to customers in financial difficulties (referred to as 'forbearance activities') to maximize collection opportunities and minimize the risk of default. Under the Company's forbearance policy, lease receivable forbearance is granted on a selective basis if the customer is currently unable to pay this final amount.

The renegotiated term does not exceed 12 months from the date the customer requests for rescheduling. The Company's credit and risk committee regularly reviews reports on forbearance activities.

#### 20.2 3.5 Collateral

The Company in the ordinary course of lending activities hold collaterals as security to mitigate credit risk in the lease receivable. These collaterals are the underlying assets subject to such finance lease. For lease receivables that are credit impaired at the reporting period, the Company closely monitors collateral held as it becomes more likely that Company Group will take possession of collateral to mitigate potential credit losses. Lease receivables that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

| | **Gross exposure** | **Impairment allowance** | **Carrying amount** | **Fair value of collateral held** |
|---|---|---|---|---|
| Lease receivables | 132,180,498 | (28,270,896) | 103,571,868 | 64,084,676 |

The following table shows the distribution of Loan to Value "LTV" ratios for the Company's credit-impaired lease portfolio:

| | **2018** |
|---|---|
| Less than 50% | **50,893,770** |
| 51-70% | **67,347,553** |
| More than 70% | **13,939,175** |
| Total | **132,180,498** |

### 20.3 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due. Liquidity risk arises because of the possibility that the Company will be required to pay its liabilities earlier than expected or will face difficulty in raising funds to meet commitments associated with financial liabilities as they fall due. As at December 31, 2018 current liabilities of the Company have exceeded current assets by Saudi Riyals 102.5 million (2017: Saudi Riyals: 58.56 million). The Company's financial liabilities primarily consist of accounts payable, accrued and other liabilities. Even though significant portion of these liabilities are expected to be settled within 12 months from the reporting date, the Company expects to have adequate liquid funds to settle its current liabilities through close monitoring of its current assets and current liabilities.

The Company's management has prepared its business plan and cash flow forecasts for the twelve months from the reporting date taking into consideration the nature and condition of business, the degree to which it is effected by external factors and other financial data available at the time of preparation of such forecasts. Further, significant portion of the Company's accounts payable related to payable to UMA that maintains an open account with the Company and the Company expects to continue to obtain support from UMA for the next twelve months from the reporting date.

## 20. Financial risk management (continued)

### 20.3 Liquidity risk (continued)

Following is the contractual maturities of undiscounted cash flows of financial liabilities as at December 31, 2018 and 2017:

| At December 31, 2018 | Less than 6 months | 6-12 months | Between 1 and 2 years | Between 2 and 5 years | Total |
|---|---|---|---|---|---|
| Accounts payable | **189,884,541** | **-** | **-** | **-** | **189,884,541** |
| Other liabilities and accruals | **7,572,328** | **-** | **-** | **-** | **7,572,328** |
| Net servicing liability | **4,118,609** | **3,349,742** | **5,297,771** | **1,479,908** | **14,246,030** |
| | **201,575,478** | **3,349,742** | **5,297,771** | **1,479,908** | **211,702,899** |

| At December 31, 2017 | Less than 6 months | 6-12 months | Between 1 and 2 years | Between 2 and 5 years | Total |
|---|---|---|---|---|---|
| Accounts payable | 146,353,349 | - | - | - | 146,353,349 |
| Other liabilities and accruals | 7,929,797 | - | - | - | 7,929,797 |
| Net servicing liability | 6,651,038 | 5,068,451 | 7,468,351 | 6,777,680 | 25,965,520 |
| | 160,934,184 | 5,068,451 | 7,468,351 | 6,777,680 | 180,248,666 |

The present value of the net servicing liability is Saudi Riyals 13.7 million (2017: 24.7 million).

### 20.4 Capital risk management

The objective of the Company when managing capital is to safeguard its ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to maintain a strong capital base to support the sustained development of its business.

The Company manages its capital structure by monitoring return on net assets and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend paid to its shareholders or increase its share capital. Further, the Company monitors aggregate amount of financing offered by the Company on the basis of the regulatory requirements of Regulations for Companies and SAMA which requires Finance Companies engaged in financing other than real estate, to maintain aggregate financing to capital ratio of three times.

| | 2018 | 2017 |
|---|---|---|
| Aggregate financing to capital ratio<br>(Net investment in finance lease divided by total equity) | **2.04 times** | 1.57 times |

Equity includes all capital and reserves of the Company that are managed as capital.

### 20.5 Fair value of financial instruments

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

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

The principal or the most advantageous market must be accessible to by the Company.

The Company's financial assets consist of cash and cash equivalents, other receivables, investments in finance lease, available-for-sale investment and financial liabilities consisting of due to related parties, accrued expenses and other liabilities.

## 20. Financial risk management (continued)

### 20.5 Fair value of financial instruments (continued)

The fair values of financial assets and liabilities are not materially different from their carrying values at the statement of financial position date.

*Determination of fair value and fair value hierarchy.*

The Company, if applicable, uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

Set out below is a comparison, by class, of the carrying amounts and fair value of the Company's financial instruments, other than those with carrying amounts that are reasonable approximations of fair values:

| | December 31, 2018 carrying amount | Fair value | Quoted prices in active markets (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| *FVTOCI* | **892,850** | **892,850** | **-** | **-** | **892,850** |
| **Total assets** | **892,850** | **892,850** | **-** | **-** | **892,850** |

| | December 31, 2017 carrying amount | Fair value | Quoted prices in active markets (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| *Available-for-sale investments* | 892,850 | 892,850 | - | - | 892,850 |
| **Total assets** | 892,850 | 892,850 | - | - | 892,850 |

The management assessed that cash and cash equivalents, prepayment and other receivables, trade payables and other liabilities and accruals approximate their carrying amounts largely due to the short-term maturities of these instruments.

**Level 3**
The management believes that the carrying value of the investment approximates to the fair value at December 31, 2018 and December 31, 2017

There were no transfers between levels during the years ended December 31, 2018 and 2017.

## 21. 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 Company continues to manage these derecognized finance lease receivables as a servicer in accordance with the securitization and agency agreements entered into with the financial institution (see Note 6). The Company is continuing to manage these sold receivables for an agreed fee which is netted-off with related cost of servicing these finance lease receivables sold to financial institution.

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

| | **2018** | **2017** |
|---|---|---|
| Finance lease receivables sold under securitization agreements | **175,477,025** | 315,010,368 |

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

| | **December 31, 2018** | | **December 31, 2017** | |
|---|---|---|---|---|
| | **Less than one year** | **One to five year** | **Less than one year** | **One to five year** |
| Securitization agreements | **89,976,120** | **85,500,905** | 135,170,527 | 179,839,841 |

## 22. Net servicing liability under agency agreement

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.

## 23. Approval of financial statements

These financial statements have been authorised for issue by the management on March 4, 2019.