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

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
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, 2019

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, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (SOCPA).

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at December 31, 2019;
- 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 , that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements issued by the SOCPA, 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.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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 2, 2020

برايس وترهاوس كوبرز
محاسبون قانونيون
ترخيص ١/٢٥/١١/٣٢٣
س.ت ٤٠٣٠٢٨٩٠٠٢
PRICEWATERHOUSECOOPERS
CERTIFIED PUBLIC ACCOUNTANTS
Lic No. 323/11/25/1
C.R. 4030289002

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

		As at December 31,	
	Note	**2019**	**2018**
Assets			
Cash and cash equivalents	5	**47,180,166**	9,138,511
Net investment in finance leases	6	**69,066,224**	227,622,421
Deposits, prepayments and other receivables	7	**64,619,186**	78,078,927
Zakat refundable	14	**7,799,150**	9,281,143
Financial asset at fair value through other comprehensive income	8	**892,850**	892,850
Property and equipment	9	**655,014**	543,285
Total assets		**190,212,590**	325,557,137
Shareholders' equity and liabilities			
Shareholders' equity			
Share capital	10	**100,000,000**	100,000,000
Statutory reserve	11	**5,058,470**	4,454,606
Retained earnings		**12,713,598**	7,278,819
Total shareholders' equity		**117,772,068**	111,733,425
Liabilities			
Trade and other payables	12	**34,256,128**	189,884,541
Accrued and other liabilities	13	**9,417,021**	7,572,328
Net servicing liability under agency agreement	22	**26,111,844**	13,718,870
Employee benefit obligations	15	**2,655,529**	2,647,973
Total liabilities		**72,440,522**	213,823,712
Total shareholders' equity and liabilities		**190,212,590**	325,557,137

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

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, 2019	2018
Income			
Income from finance leases		**24,025,806**	34,001,552
Net income from finance lease receivable sold to financial institutions	6	**16,593,131**	-
Other income	17	**4,872,889**	3,766,243
Total income		**45,491,826**	37,767,795
Expenses			
General and administrative expenses	18	**(20,395,159)**	(20,990,009)
Allowance for impairment on investment in finance lease	6	**(4,800,000)**	(4,800,000)
Finance charges	12	**(1,158,416)**	(5,461,296)
Finance income		**259,907**	564,337
Finance cost, net		**(898,509)**	(4,896,959)
Other operating costs	19	**(11,877,522)**	(16,390,635)
Total expenses		**(37,971,190)**	(47,077,603)
Income (loss) before zakat		**7,520,636**	(9,309,808)
Zakat (expense) refund	14	**(1,481,993)**	9,270,232
Income (loss) for the year		**6,038,643**	(39,576)
Other comprehensive income		**-**	-
Total comprehensive income (loss) for the year		**6,038,643**	(39,576)

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

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)

	Share capital	Statutory reserve	Retained earnings	Total
Balance as at January 1, 2018	100,000,000	4,454,606	7,318,395	111,773,001
Loss for the year – restated (Note 4)	-	-	(39,576)	(39,576)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the year – restated (Note 4)	-	-	(39,576)	(39,576)
Balance as at December 31, 2018	**100,000,000**	**4,454,606**	**7,278,819**	**111,733,425**
Balance as at January 1, 2019	**100,000,000**	**4,454,606**	**7,278,819**	**111,733,425**
Income for the year	-	-	**6,038,643**	**6,038,643**
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	**6,038,643**	**6,038,643**
Transfer to statutory reserve	-	**603,864**	**(603,864)**	-
Balance as at December 31, 2019	**100,000,000**	**5,058,470**	**12,713,598**	**117,772,068**

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

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, 2019	2018
Cash flow from operating activities			
Income (loss) before zakat		**7,520,636**	(9,309,808)
Adjustments for:			
Depreciation on property and equipment	9	**677,412**	451,516
Impairment charge against investment in finance lease	6	**4,800,000**	4,800,000
Provision for employee benefit obligations	15	**514,598**	564,428
Finance cost, net		**898,509**	4,896,959
Changes in working capital:			
Prepayments and other receivables		**7,942,736**	(159,800)
Trade and other payables		**(156,786,829)**	38,069,896
Accrued and other liabilities		**1,844,693**	(357,469)
Net servicing liability under agency agreement		**12,392,974**	(10,977,899)
Cash (utilized in) generated from operations		**(120,195,271)**	27,977,823
Employee benefit obligations paid	15	**(507,042)**	(733,556)
Zakat paid	14	**-**	(3,624,718)
Net cash (utilized in) generated from operating activities		**(120,702,313)**	23,619,54
Cash flow from investing activities			
Investment in finance lease		**(75,648,899)**	(52,322,569)
Cash received on sale of finance lease receivables		**229,405,096**	-
Release of restricted deposit		**30,100,665**	16,753,796
Addition to restricted deposit		**(24,323,753)**	-
Additions to property and equipment	9	**(789,141)**	(33,267)
Net cash generated from (utilized in) investing activities		**158,743,968**	(35,602,040)
Net change in cash and cash equivalents		**38,041,655**	(11,982,491)
Cash and cash equivalents at the beginning of the year		**9,138,511**	21,121,002
Cash and cash equivalents at the end of the year	5	**47,180,166**	9,138,511

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

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 registered 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).

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. Summary of significant accounting policies

2.1 Statement of compliance and basis of preparation

Compliance with IFRS

These financial statements of the Company have been prepared in compliance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia ("IFRS") and other standards and pronouncements issued by Saudi Organization for Certified Public Accountants ("SOCPA").

The financial statements of the Company as at and for the year ended December 31, 2018 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 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.

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

Accordingly, the Company changed its accounting treatment for zakat by retrospectively adjusting the impact in line with International Accounting Standard 8 "Accounting Policies, Changes in Accounting Estimates and Errors" (as disclosed in Note 4).

Historical cost convention

The financial statements have been prepared on a historical cost basis except as otherwise disclosed in the accounting policies and related notes.

2.2.1 New and amended standards adopted by the Company

The Company has applied the following new IFRS, International Financial Reporting Interpretations Committee ("IFRIC") Interpretations and amendments for the first time for their annual reporting period commencing January 1, 2019:

(All amounts in Saudi Riyals unless otherwise stated)

2. Summary of significant accounting policies (continued)

Standard/ Interpretation	***Description***
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.
IFRIC Interpretation 23 Uncertainty over Income Tax Treatments	The interpretation explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.
Prepayment Features with Negative Compensation – Amendments to IFRS 9	Narrow-scope amendments made to IFRS 9 'Financial Instruments' in October 2017 enable entities to measure certain pre-payable financial assets with negative compensation at amortised cost. These assets, which include some loan and debt securities, would otherwise have to be measured at fair value through profit or loss.
Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28	The amendments clarify the accounting for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture, but to which equity accounting is not applied. Entities must account for such interests under IFRS 9 Financial Instruments before applying the loss allocation and impairment requirements in IAS 28 Investments in Associates and Joint Ventures.
Annual Improvements to IFRS Standards 2015-2017 Cycle	The following improvements were finalised in December 2017: - IFRS 3 Business Combinations – clarified that obtaining control of a business that is a joint operation is a business combination achieved in stages. - IFRS 11 Joint Arrangements – clarified that the party obtaining joint control of a business that is a joint operation should not remeasure its previously held interest in the joint operation. - IAS 12, 'Income taxes' – a company accounts for all income tax consequences of dividend payments in the same way. - 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.
Plan Amendment, Curtailment or Settlement – Amendments to IAS 19	These amendments require an entity to: - 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 - 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.

The impact of the adoption of IFRS 16 and the new accounting policy for zakat are disclosed in Note 4. The other standards did not have any impact on the Company's accounting policies and did not require retrospective adjustments.

2. Summary of significant accounting policies (continued)

2.2.2 New and amended standards issued but not yet effective

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*	
Amendments to IFRS 3 – definition of a business	This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations	January 1, 2020
Amendments to IAS 1 and IAS 8 on the definition of material	These amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRSs: i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting; ii) clarify the explanation of the definition of material; and iii) incorporate some of the guidance in IAS 1 about immaterial information.	January 1, 2020
Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest rate benchmark reform	These amendments provide certain reliefs in connection with interest rate benchmark reform. The reliefs relate to hedge accounting and have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. Given the pervasive nature of hedges involving IBOR based contracts, the reliefs will affect companies in all industries.	January 1, 2020

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

Except for the change in accounting policies resulting from new and amended IFRS and IFRIC guidance, as detailed 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, 2018.

2.3 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.

2.4 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.

2. Summary of significant accounting policies (continued)

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.

2.5 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 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 useful life 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.

2.6 Accounts payable and accruals

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.

2.7 Foreign currency translation

<u>Functional and presentation currency</u>

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.

<u>Transactions and balances</u>

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.

2. Summary of significant accounting policies (continued)

2.8 Zakat

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

The Company withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian income Tax law.

2.9 Employee benefit obligations

The Company operates a single post-employment benefit scheme of defined benefit plan driven by the labor laws and workman laws of the Kingdom of Saudi Arabia which is based on most recent salary and number of service years.

The post-employment benefit plan is not funded. The liability in respect of defined benefit plan is recognised in the statement of financial position at the present value of the defined benefit obligation at the reporting date. The present value of the defined benefit obligation is determined by discounting the estimated future payments by reference to market yields at the reporting date on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related defined benefit liability. The Company uses certain simplifications in measuring its obligation and cost under the defined benefit plan.

Actuarial gains and losses, if any, are charged or credited to statement of comprehensive income in the period in which they occur.

Changes in the present value of the defined benefit obligations resulting from plan amendments or curtailments are recognized immediately in statement of comprehensive income as past service costs. End of service payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the labor law of Saudi Arabia.

2.10 Leases

Until the 2018 financial year-end, leases of property and equipment were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to the statement of comprehensive income on a straight-line basis over the period of the lease. From January 1, 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the company.

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

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

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

2. Summary of significant accounting policies (continued)

2.10 Leases (continued)

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and restoration costs.

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

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

2.11 Impairment of non-financial assets

Non-financial 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.

2.12 Provisions

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.

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.

2.13 Revenue recognition - Finance lease and other operating income

i) Lease income

Finance lease income is calculated by applying the effective interest rate to the minimum lease payments 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).

2. Summary of significant accounting policies (continued)

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.

2.14 Financial instruments

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.

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.

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

2.14 Financial instruments (continued)

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.

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.

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

2.14 Financial instruments (continued)

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 ("Performing") 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 ("Under-performing") 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.

Stage 3 ("Non-performing") 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.

3 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 20.4.3, which also sets out the key sensitivities of the ECL to change these elements.

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 20.5.3.

b) 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.

4. Change in accounting policies

a) Impact of adoption of IFRS 16

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

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

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

(All amounts in Saudi Riyals unless otherwise stated)

4 Change in accounting policies (continued)

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

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

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

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

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

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

Extension options

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

Critical judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option. Extension options are only included in the lease term if the lease is reasonably certain to be extended. The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

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

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

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

4 Change in accounting policies (continued)

b) Change in the accounting for zakat

As mentioned above, the basis of preparation has been changed for the year ended December 31, 2019, based on the latest instructions from SAMA dated July 17, 2019. Previously, zakat was recognized in the statement of changes in equity as per the SAMA circular no 381000074519 dated April 17, 2017. As per SAMA instructions dated July 17, 2019, the zakat shall be recognized in the statement of income. The Company has accounted for this change in the accounting for zakat retrospectively and the effects of the above change are disclosed below. The change has resulted in increase of reported income of the Company for the year ended December 31, 2018 by Saudi Riyals 9.27 million.

The change in the accounting treatment for zakat has the following impact on the line items of the statements of income, financial position and changes in shareholders' equity.

As at and for the year ended December 31, 2018:

Financial statements impacted	Account	Before the restatement for the year ended December 31, 2018 (Unaudited)	Effect of restatement relating to zakat	As restated as at and for the restatement for the year ended December 31, 2018 (Unaudited)
Statement of changes in shareholders' equity	Zakat charge for the period	9,270,232	(9,270,232)	-
Statement of comprehensive income	Zakat refund net of charge	-	9,270,232	9,270,232

The above change in accounting policy did not have any effect on the financial position as of December 31, 2018 and the statement of cash flows for the year ended December 31, 2018.

5. Cash and cash equivalents

	2019	2018
Cash in hand	**344,377**	415,352
Cash at banks	**11,835,789**	8,723,159
Short-term deposit	**35,000,000**	-
	47,180,166	9,138,511

Short-term deposits are placed with a local commercial bank with a term of up to one month and denominated in Saudi Riyals. These term deposits yield financial income at prevailing market rates.

6. Net investment in finance leases

	Note	2019	2018
Gross investment in finance lease		**120,552,934**	349,727,662
Less: Unearned finance income and other related credits		**(30,212,244)**	(93,496,611)
Present value of minimum lease payments receivable		**90,340,690**	256,231,051
Less: Allowance for impairment against investment in finance lease	6.2	**(21,274,466)**	(28,608,630)
Net investment in finance lease		**69,066,224**	227,622,421

(All amounts in Saudi Riyals unless otherwise stated)

6. Net investment in finance leases (continued)

6.1 Details of investment in finance lease

	2019		2018	
	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	**47,914,379**	**(12,657,714)**	109,762,457	(34,492,677)
One to five years	**72,638,555**	**(17,554,530)**	239,965,205	(59,003,934)
	120,552,934	**(30,212,244)**	349,727,662	(93,496,611)

The title of the assets sold under finance lease agreements are held in the name of the Company. Finance lease relates to leasing of motor vehicles to corporate and retail customers.

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

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

Following are the scheduled maturities of minimum lease payments receivable:
Years ending December 31:

2020	**47,914,379**
2021	**26,758,130**
2022	**17,229,499**
2023	**12,818,616**
2024	**15,107,063**
2025	**725,247**
	120,552,934

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

	2019	**2018**
Opening	**28,608,630**	24,413,557
Impact on adoption of IFRS 9	**-**	3,775,171
Adjusted opening balance	**28,608,630**	28,188,728
Charged during the year	**4,800,000**	4,800,000
Write-offs	**(12,134,164)**	(4,380,098)
Closing	**21,274,466**	28,608,630

6.3 During 2019, the Company sold its finance lease receivables under securitisation contracts amounting to Saudi Riyals 269.5 million to a financial institution and derecognized the same from its books and recorded a net gain of Saudi Riyals 16.6 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 22.

(All amounts in Saudi Riyals unless otherwise stated)

6 Net investment in finance leases (continued)

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

2019

	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Allowance for impairment of investment as at January 1, 2019				
Transfers to 12 month ECL	337,734	2,883,274	25,387,622	28,608,630
Net charge for the year	(258,608)	(2,393,009)	7,451,617	4,800,000
Write-offs	-	-	(12,134,164)	(12,134,164)
Allowance for impairment of investment as at December 31, 2019	79,126	490,265	20,705,075	21,274,466

2018

	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	2019	2018
Restricted deposits	7.1	**51,387,662**	57,164,574
Prepaid insurance		**7,195,236**	10,700,138
Due from a related party	12	**2,552,937**	-
Receivable from employees		**1,722,059**	1,498,764
Other prepayments and receivables		**1,761,292**	8,715,451
		64,619,186	78,078,927

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 51.4 (2018: Saudi Riyals 28.5 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, 2019 and December 31, 2018.

(All amounts in Saudi Riyals unless otherwise stated)

9. Property and equipment

	January 1, 2019	Additions	Disposal	December 31, 2019
Cost				
Leasehold improvements	3,803,063	-	-	**3,803,063**
Furniture and fixtures	3,773,945	6,864	-	**3,780,809**
Motor vehicles	451,014	38,600	-	**489,614**
Office equipment	1,070,326	743,677	-	**1,814,003**
	9,098,348	789,141	-	**9,887,489**
Accumulated depreciation				
Leasehold improvements	(3,378,829)	(345,935)	-	**(3,724,764)**
Furniture and fixtures	(3,673,675)	(54,324)	-	**(3,727,999)**
Motor vehicles	(451,014)	(29,754)	-	**(480,768)**
Office equipment	(1,051,545)	(247,399)	-	**(1,298,944)**
	(8,555,063)	(677,412)	-	**(9,232,475)**
	543,285			**655,014**

	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

10. Share capital

The share capital of the Company as of December 31, 2019 and 2018 was comprised of 100,000 shares stated at Saudi Riyals 1,000 per share owned as follows:

	Nationality	Shareholding 2019	Shareholding 2018
Modern Ajwad for Commercial Investment Co. Ltd.	Saudi	60%	60%
Tawad Holding Company	Saudi	40%	40%
		100%	100%

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.

(All amounts in Saudi Riyals unless otherwise stated)

12. Related party transactions

The Company is a member of an affiliated group of companies which are directly or indirectly controlled by Abduljawad family, which are the ultimate shareholders. Related parties include the ultimate shareholders, companies owned by the shareholders and key management personnel.

During 2018 and 2019, 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:

	2019	**2018**
Purchase of motor vehicles	**92,983,344**	139,408,900
Finance cost charged by UMA	**1,158,416**	5,461,296

Compensation of key management personnel

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

	2019	**2018**
Salaries and bonuses paid / accrued to key management personnel	**1,204,719**	713,549
Board of Directors fee	**660,000**	540,000
End of service indemnities accrued during the year	**51,736**	32,900

Balances with a related party

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

	Relationship	**2019**	**2018**
Due from Universal Motors Agencies	Affiliate	2,552,937	-

	Relationship	**2019**	**2018**
Due to Universal Motors Agencies (included in Trade and other payables)	Affiliate	-	149,782,303

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

13. Accrued and other liabilities

	2019	**2018**
Employee related accruals	**4,765,574**	3,924,177
Advances from customers	**387,366**	516,952
Accrued board of directors' fee	**660,000**	540,000
Other accruals	**3,604,081**	2,591,199
	9,417,021	7,572,328

14. Zakat matters

14.1 Zakat base

During the year ended December 31, 2019, the GAZT had provided a revised formula for computation of zakat from the year 2019 and onwards for companies involved in financing activities. Provision for zakat is calculated at 2.578% of the zakat base subject to minimum and maximum capping / threshold of 4 times or 8 times of net income before zakat. Previously, provision for zakat was calculated at 2.5% of zakat based and adjusted net income, whichever is higher. The Company has computed zakat charge for the year ended December 31, 2019 based on such revised formula which has been recognized in the statement of comprehensive income.

(All amounts in Saudi Riyals unless otherwise stated)

14 Zakat matters (continued)

The principal elements of the approximate zakat base are as follows:

	2019
Equity	**117,707,135**
Non-current liabilities and borrowings	**15,404,434**
Total Financing Resources	**133,111,569**
Total assets	**190,147,657**
Assets subject to Zakat ("Zakat assets")	**82,128,107**
Zakat assets / Total assets	**43.19%**
Approximate zakat base	**57,493,221**

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

14.2 Zakat refundable

	Note	**2019**	**2018**
January 1		**(9,281,143)**	3,613,807
Zakat charge		**1,481,993**	330,564
Zakat refund for prior years	14.3	**-**	(9,600,796)
Paid during the year		**-**	(3,624,718)
December 31		**(7,799,150)**	(9,281,143)

14.3 Status of final assessments

During the year, the Company has received a settlement notice from the GAZT relating to the treatment of non-current portion of net investment in its finance lease for the purposes of determination of zakat base. The notice prescribes the method to calculate the Company's zakat liability for the year ended December 31, 2018 and states that applying the same principles, the Company is entitled to a credit of Saudi Riyals 9.7 million for the year when the Company was provided a license from SAMA to be involved in the finance lease activities till 2017, whereas there would be a charge of Saudi Riyals 0.5 million for the year ended December 31, 2018. Management has agreed to the settlement notice and has accordingly recorded a net zakat refundable of Saudi Riyals 9.2 million during the year ended December 31, 2018.

The Company has filed its zakat declarations with GAZT up to 2018 and there are no open assessments as of December 31, 2019.

15. Employee benefit obligations

	2019	**2018**
January 1	**2,647,973**	2,817,101
Charge	**514,598**	564,428
Payments	**(507,042)**	(733,556)
December 31	**2,655,529**	2,647,973

16. Short-term leases

	2019	**2018**
Short-term lease commitments	**863,740**	1,334,525

Short-term leases 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

	2019	2018
Recovery against previously written-off investment in finance lease	**3,822,722**	3,119,316
Other	**1,050,167**	646,927
	4,872,889	3,766,243

18. General and administrative expenses

	Note	2019	2018
Salaries and allowances		**13,163,320**	14,087,343
Professional charges		**2,601,453**	2,891,991
Rent		**1,086,648**	1,561,260
Depreciation	9	**677,412**	451,516
Repair and maintenance		**365,294**	345,394
Other		**2,501,032**	1,652,505
		20,395,159	20,990,009

19. Other operating costs

	2019	2018
Insurance cost	**5,795,810**	10,777,928
Losses due to early settlement of finance lease contracts	**6,081,712**	5,612,707
	11,877,522	16,390,635

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.

20.1 Market risk

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

20.2 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.

20.3 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 mainly finance lease receivables have fixed interest rates. Applicable interest rates for the same have been disclosed in their respective notes.

(All amounts in Saudi Riyals unless otherwise stated)

20. Financial risk management (continued)

20.4 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, 2019 and 2018, the Company has an investment in equity 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.

20.5 Credit risk

20.5 .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.

20.5 .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:

	2019	2018
Retail	**98.9%**	97.6%
Fleet	**1.1%**	2.4%
	100%	100%

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 190.2 million (2018: Saudi Riyals 325.6 million) the assets which were subject to credit risk amounted to Saudi Riyals 173.3 million (2018: Saudi Riyals 301.1 million).

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

	2019	2018
Net investment in finance lease	**69,066,224**	227,622,421
Restricted deposits	**51,387,662**	57,164,574
Other receivables	**6,036,288**	7,618,039
Cash at banks	**46,835,789**	8,723,159
	173,325,963	301,128,193

(All amounts in Saudi Riyals unless otherwise stated)

20. Financial risk management (continued)

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, 2019			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Fleet	**500,635**	**220,977**	**266,484**	**988,096**
Retail	**54,560,961**	**8,233,197**	**26,558,436**	**89,352,594**
	55,061,596	**8,454,174**	**26,824,920**	**90,340,690**

	December 31, 2018			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Fleet	4,932,176	773,385	3,628,876	9,334,437
Retail	184,476,739	23,804,882	38,614,993	246,896,614
	189,408,915	24,578,267	42,243,869	256,231,051

The credit quality of the Company's bank balances is 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:

	2019	2018
A-	**45,454,350**	6,023,738
BBB+	**1,381,439**	2,699,421
	46,835,789	8,723,159

20.5 .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.

20.5 .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.

(All amounts in Saudi Riyals unless otherwise stated)

20. Financial risk management (continued)

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.

20.5 .3.2 Categorization

The Company categorize its investment in finance lease into Stage 1, Stage 2, Stage 3, as described in Note 2.14.

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

	December 31, 2019	December 31, 2018
Stage 1	**79,126**	337,734
Stage 2	**490,265**	2,883,274
Stage 3	**20,705,075**	25,387,622
	21,274,466	28,608,630

20.5 .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.

(All amounts in Saudi Riyals unless otherwise stated)

20. Financial risk management (continued)

Determining whether credit risk has increased significantly (continued)

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.

20.5 3.4 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	55,091,206	21,274,466	33,816,740	23,460,726

20.6 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. 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 in 2018 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.

Following is the contractual maturities of undiscounted cash flows of financial liabilities as at December 31, 2019 and 2018:

At December 31, 2019	Less than 6 months	6-12 months	Between 1 and 2 years	Between 2 and 5 years	Total
Trade and other payables	34,256,128	-	-	-	34,256,128
Other liabilities and accruals	9,417,021	-	-	-	9,417,021
Net servicing liability	8,398,234	4,964,709	7,609,636	6,328,673	27,301,252
	52,071,383	4,964,709	7,609,636	6,328,673	70,974,401

(All amounts in Saudi Riyals unless otherwise stated)

20. Financial risk management (continued)

At December 31, 2018	Less than 6 months	6-12 months	Between 1 and 2 years	Between 2 and 5 years	Total
Trade and other payables	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

The present value of the net servicing liability is Saudi Riyals 26.1 million (2018: 13.7 million).

20.7 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.

	2019	2018
Aggregate financing to capital ratio (Net investment in finance lease divided by total equity)	**0.59 times**	2.04 times

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

20.8 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.

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:

(All amounts in Saudi Riyals unless otherwise stated)

20. Financial risk management (continued)

20.8 Fair value of financial instruments (continued)

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, 2019 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, 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

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, 2019 and December 31, 2018.

There were no transfers between levels during the years ended December 31, 2019 and 2018.

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.

(All amounts in Saudi Riyals unless otherwise stated)

21 Finance lease receivables – securitization and agency agreements (continued)

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

	2019	2018
Finance lease receivables sold under securitization agreements	**295,493,064**	175,477,025

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

	December 31, 2019		December 31, 2018	
	Less than one year	One to five year	Less than one year	One to five year
Securitization agreements	**108,318,311**	**187,174,753**	89,976,120	85,500,905

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 receivables sold to financial institutions. 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. Date of authorisation of issue

These financial statements have been authorised for issue by the management on March 2, 2020.