

AL AMTHAL FINANCING COMPANY
(A Saudi Closed Joint Stock Company)

**FINANCIAL STATEMENTS FOR THE YEAR
ENDED DECEMBER 31, 2018 AND
THE INDEPENDENT AUDITORS' REPORT**

AL AMTHAL FINANCING COMPANY
(A Saudi Closed Joint Stock Company)

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

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Independent auditors' report to the shareholders of Al Amthal Financing Company (A Saudi Closed Joint Stock Company)

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Al Amthal Financing 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 ("IFRS") as modified by Saudi Arabian Monetary Authority ("SAMA") for 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 the summary of significant accounting policies.

Basis for opinion

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

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

Independence

We are independent of the Company in accordance with the code of professional conduct and ethics, endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS as modified by SAMA for 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.

Independent auditors' report to the shareholders of Al Amthal Financing Company (A Saudi Closed Joint Stock Company) (continued)

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

PricewaterhouseCoopers



Khalid A. Mahdhar
License Number 368

February 10, 2019

AL AMTHAL FINANCING COMPANY
(A Saudi Closed Joint Stock Company)

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2018
(All amounts in Saudi Riyals unless otherwise stated)

	Note	As at December 31,	
		2018	2017
ASSETS			
Cash and cash equivalents	4	66,810,948	31,738,620
Short term deposit	23	500,000	-
Net investment in finance leases	5	233,487,069	232,627,837
Investment at fair value through other comprehensive income	6	892,850	892,850
Prepayments and other current assets	7	16,528,752	12,377,661
Property and equipment	8	2,764,863	1,980,302
TOTAL ASSETS		320,984,482	279,617,270
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Accounts payable		5,756,742	22,995,297
Advances from customer		2,375,007	2,377,160
Accrued expenses and other liabilities	9	4,790,718	3,396,412
Provision for zakat and income tax	10	30,550,607	31,220,165
Borrowings	11	45,000,000	-
Provision for employee termination benefits	12	4,667,257	4,057,363
Total liabilities		93,140,331	64,046,397
Shareholders' equity			
Share capital	13	213,172,000	330,000,000
Proposed decrease in share capital	13	-	(116,000,000)
		213,172,000	214,000,000
Statutory reserve	14	5,197,243	3,739,910
Retained earnings / (Accumulated losses)		9,474,908	(2,169,037)
Total Shareholders		227,844,151	215,570,873
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		320,984,482	279,617,270

The accompanying notes on pages 7 to 21 form an integral part of these financial statements.

AL AMTHAL FINANCING COMPANY
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STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2018
(All amounts in Saudi Riyals unless otherwise stated)

	Note	2018	2017
Income			
Finance lease revenue	15	36,416,379	29,880,287
Expenses			
Reversal of / (provision for) impairment - net	5.4	15,546,575	(21,434,817)
Salaries and employee related expenses		(25,961,719)	(23,093,483)
Other general and administrative expenses	16	(10,644,174)	(6,841,913)
Depreciation	8	(530,834)	(516,209)
Finance cost	17	(178,591)	(226,849)
		14,647,636	(22,232,984)
Other (expenses) / income	18	(74,305)	852,803
Net income (loss) for the year		14,573,331	(21,380,181)
Other comprehensive income			
Actuarial losses on employees' end of service benefits		(334,469)	-
Total comprehensive income / (loss) for the year		14,238,862	(21,380,181)

The accompanying notes on pages 7 to 21 form an integral part of these financial statements.

AL AMTHAL FINANCING COMPANY
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STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED DECEMBER 31, 2018
(All amounts in Saudi Riyals unless otherwise stated)

	Note	Share capital	Proposed (decrease) in share capital	Statutory reserve	Accumulated earnings/ (losses)	Total
Balance at December 31, 2016		200,000,000	130,000,000	3,739,910	(81,789,060)	251,950,850
Adjustment on adoption of IFRS 9		-	-	-	(12,999,857)	(12,999,857)
Balance as at January 1, 2017		200,000,000	130,000,000	3,739,910	(94,788,917)	238,950,993
Increase in share capital		130,000,000	(130,000,000)	-	-	-
Net loss for the year - as restated		-	-	-	(21,380,181)	(21,380,181)
Zakat charge for the year	10	-	-	-	(1,999,939)	(1,999,939)
Proposed decrease in share capital		-	(116,000,000)	-	116,000,000	-
Balance at December 31, 2017		330,000,000	(116,000,000)	3,739,910	(2,169,037)	215,570,873
Balance as at December 31, 2017		330,000,000	(116,000,000)	3,739,910	(2,169,037)	215,570,873
(decrease) in share capital	13	(116,828,000)	116,000,000	-	828,000	-
Total comprehensive income:						
Income for the year		-	-	-	14,573,331	14,573,331
Other comprehensive income		-	-	-	(334,469)	(334,469)
Zakat charge for the year	10	-	-	-	(1,965,584)	(1,965,584)
Transfer to statutory reserve		-	-	1,457,333	(1,457,333)	-
Balance at December 31, 2018		213,172,000	-	5,197,243	9,474,908	227,844,151

The accompanying notes on pages 7 to 21 form an integral part of these financial statements.

AL AMTHAL FINANCING COMPANY
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STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2018
(All amounts in Saudi Riyals unless otherwise stated)

	Note	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income / (loss) for the year		14,573,331	(21,380,181)
Adjustments for non-cash items:			
Depreciation	8	530,834	516,209
(Reversal of) / provision for impairment - net	5.4	(15,546,575)	21,434,817
Provision for employee termination benefits	12	679,701	577,468
Changes in operating assets and liabilities:			
Net investment in finance leases		16,719,279	(133,199,569)
Prepayments and other current assets		(6,183,027)	20,989,118
Accounts payable		(17,238,555)	19,403,981
Advances from customer		(2,153)	(5,744,483)
Accrued expenses and other liabilities		1,394,306	1,027,235
Employee termination benefits paid	12	(404,276)	(367,720)
Zakat paid	10	(2,635,142)	-
Net cash used in operating activities		(8,112,277)	(96,743,125)
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment	8	(1,315,395)	(1,300,931)
Investment at FVTOCI		-	(892,850)
Short-term deposits and Investments		(500,000)	26,000,000
Net cash (used in) / generated from investing activities		(1,815,395)	23,806,219
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		45,000,000	-
Repayments of borrowings		-	(2,600,000)
Proceeds from a shareholder's loan		25,000,000	-
Repayment of loans from a shareholders		(25,000,000)	-
Net cash (generated from) financing activities		45,000,000	(2,600,000)
Net change in cash and cash equivalents		35,072,328	(75,536,906)
Cash and cash equivalents at the beginning of the year	4	31,738,620	107,275,526
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	4	66,810,948	31,738,620
Supplemental non-cash information:			
Net investment in finance lease write – offs	5.3	-	21,376,226

The accompanying notes on pages 7 to 21 form an integral part of these financial statements.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018
(All amounts in Saudi Riyals unless otherwise stated)

1. General information

Al Amthal Financing Company (the "Company"), is a Saudi closed joint stock company registered in Riyadh, Kingdom of Saudi Arabia under commercial registration No. 1010160349 dated Rabi Al-Thani 28, 1421H (corresponding to July 30, 2000). The Company principally undertakes leasing, and financing of dealer equipment and vehicles under general investment authority No. 102030104467 dated Zul Al-Hijjah 17, 1430 H. (corresponding to December 5, 2009).

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

Al Amthal Financing Company
P.O. Box 300827
Riyadh 11372
Kingdom of Saudi Arabia

The Company have the following branches and the results thereof are part of these financial statements:

Location	Commercial Registration Number
Abha	5850070625
Jeddah	4030133764
Khobar	2051047756
Riyadh	1010462986

2. Summary of significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

These financial statements 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 shareholders equity under retained earnings.

2.2 Historical cost convention

The financial statements have been prepared on a historical cost basis, except as otherwise disclosed in these notes to the financial statements.

2.3 Financial instruments

a) Initial recognition

The Company initially recognizes financial assets and financial liabilities when it becomes party to the contractual provisions of the financial instrument.

b) Classification

From January 1, 2017, the Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortized cost. The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

c) Measurement

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

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Subsequent measurement of debt instruments

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

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

Subsequent measurement of equity instruments

Currently, the Company hold only one equity investment. Therefore, the related accounting policy is presented below:

The Company 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 other comprehensive income (FVOCI) , there is no subsequent reclassification of fair value gains and losses to profit or loss following the de-recognition of the investment. Dividends from such investments are recognized in profit or loss as other income when the Company's right to receive payments is established.

d) Impairment of financial assets

The Company assesses on a forward looking basis the expected credit losses associated with its financial assets carried at amortized cost and FVOCI.

For net investment in finance leases "lease receivables", the Company applies the simplified approach as permitted by IFRS 9, which requires expected lifetime losses to be recognized from the initial recognition of the lease receivables.

The Company uses a provision matrix in the calculation of the expected credit losses on lease receivables to estimate the lifetime expected credit losses, applying certain provision rates to respective contractual past due aging buckets. The provision matrix was developed considering probability of default and loss given default which were derived from historical data of the Company and are adjusted to reflect the expected future outcome which includes macro-economic factors such as inflation and gross domestic product growth rate.

Other instruments are considered as low risk and the Company use a provision matrix in calculating the expected credit losses.

Financial asset is written-off only when:

- (i) that is past due at least from two years, and
- (ii) there is no reasonable expectation of recovery.

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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 in the statement of comprehensive income or loss.

e) Financial liabilities - subsequent classification, measurement and de-recognition

Financial liabilities are subsequently classified and measured at amortized cost using the effective yield method. The effective yield rate is the rate that discounts the estimated future cash payments through the expected life of the financial liability to the net carrying amount on initial recognition.

The Company derecognizes a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires.

2.4 Zakat and Tax

In accordance with the regulations of the Zakat and Income Tax, the Company is subject to zakat attributable to the Saudi shareholder and to income taxes attributable to the foreign shareholder. Provisions for zakat and income taxes are charged to the statement of changes in equity. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

2.5 New standards or amendments

New standards and amendments to existing standards effective from January 1, 2018

IFRS 9 – Financial instruments, effective from January 1, 2018, was early adopted by the Company on January 1, 2017 and its effect have been incorporated in the prior year financial statements. See note 5.3 and note 20 for further details on the impact of change in accounting policies.

New accounting standards including IFRS 15 – Revenue from contracts with customers, and amendments to existing accounting standards, effective from January 1, 2018 do not have any significant effect on the Company's financial statements.

New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2019, and have not been applied in preparing these financial statements. None of these standards is expected to have a significant effect on the financial statements of the Company, except the following set out below:

IFRS 16, Leases IFRS 16, Leases was issued in January 2016

For lessees, it will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases will be removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

The standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted. The Company is currently assessing the impact of IFRS 16 on its current accounting practices.

There are no other IFRS standards or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

2.6 Functional and presentation currency

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

2.7 Cash and cash equivalents

Cash and cash equivalents include cash in hand, demand deposits and short-term highly liquid investments, with original maturities up to three months, that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018
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2.8 Net investment in finance leases

Leases in which the Company transfers substantially all the risk and rewards incidental to the ownership of an asset to the lessees are classified as finance lease. Finance leases are recorded at the inception of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments ("PVMLP) and subsequently measured at amortized cost using effective commission rate.

Gross investment in finance leases include the total of future lease payments on finance leases including residual amount receivable ("Lease rentals"). Security deposits with right to offset against lease rentals are deducted from gross investments in finance lease. The difference between lease rentals and the cost of the leased asset including transaction costs is recorded as unearned finance income.

For presentation purposes, the unearned finance income and impairment provision for lease losses is deducted from the gross investment in finance leases.

2.9 Repossessed assets held for sale

The Company in the ordinary course of its business, acquires certain vehicles and other assets against settlement of loans and advances. Such assets are considered as assets held for sale and are initially recorded at the lower of the net realizable value of related loans and advances or the current fair value of the related assets, less any cost to sell.

Subsequent to the initial recognition, these assets owned are periodically revalued and are carried at lower of their carrying values or the related net realizable value. Rental income, realized gain or losses on disposal and unrealized losses on evaluation are credited or charged to the statement of comprehensive income or loss.

2.10 Short-term deposits

Short-term deposits include placements with banks and other short-term highly liquid investments with original maturities of more than three months but not more than one year from the purchase date.

2.11 Property and equipment

Property and equipment are carried at cost less accumulated depreciation and accumulated impairment, if any, except construction in progress which is carried at cost, less accumulated impairment, if any. Land is not depreciated. Depreciation is charged to the statement of comprehensive income or loss, using the straight-line method, to allocate the carrying value over the estimated useful lives, as follows:

	Number of years
• Leasehold improvements	Shorter of 5 - 10 or the lease period
• Vehicles	4
• Furniture, fixtures and office equipment	5 - 10
• Computers and software	4 - 5

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the statement of comprehensive income or loss.

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 the replaced part is derecognized.

All other repairs and maintenance are charged to the statement of comprehensive income or loss during the financial year in which they are incurred.

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

2.12 Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-

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financial assets that suffered impairment are reviewed for possible reversal of impairment at each reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the statement of comprehensive income or loss.

2.13 Accounts payable and accruals

Liabilities are obligations to pay for goods and services received, whether or not billed to the Company. Trade payable are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

All other borrowing costs are recognized in statement of comprehensive income or loss in the period in which they are incurred.

2.14 Employees end of service benefits

The Company has changed its accounting policy to recognize the obligation for employee end of service benefits. The new accounting policy will be in line with the requirements of IFRS and provide more reliable and relevant information. The change in accounting policy has been applied retrospectively, however, considering the effect of change in accounting policy was insignificant, the financial impact of prior years has been accounted for in the current year of financial statement. The previous and new accounting policies are presented below:

New accounting policy:

Employee termination benefits are payable as a lump sum to all employees, under the terms and conditions of Saudi Labor Laws applicable on the Company, on termination of their employment contracts. End of service payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the laws of the Kingdom of Saudi Arabia.

The calculation of obligation is performed using the projected unit credit method to make a reliable estimate of the ultimate cost to the Company of the benefit payable to employees. Actuarial gains or losses on re-measurement of obligation are recognized immediately in the statement of other comprehensive income. Actuarial gains and losses represent changes in the present value of the obligation resulting from experience adjustments and the effects of changes in actuarial assumptions.

Previous accounting policy:

Employee termination benefits are payable as a lump sum to all employees, under the terms and conditions of Saudi Labor Laws applicable to the Company, on termination of their employment contracts. End of service payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the laws of the Kingdom of Saudi Arabia.

The liability is calculated as the current value of the vested benefits to which the employee is entitled, should the employee leave at the statement of financial position date.

2.15 Provisions

Provisions are recognized when; the Company has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated.

2.16 Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Finance lease income is recognized over the term of the lease using the effective yield method and other income are recognized on accrual basis as the services are rendered.

2.17 Operating leases

Rental expenses under operating leases are charged to the statement of comprehensive income or loss over the period of the respective lease. Other income is recognized on the accrual basis in accordance with the terms of the contracts.

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2.18 Financial assets and financial liabilities

Financial assets and financial liabilities are initially measured at cost, which is the fair value of the consideration given and received respectively. These assets and liabilities are subsequently measured at fair value, amortized cost or cost as the case may be. These assets and liabilities are off-set and the net amount is reported in the statement of financial position if the Company has a legal right to off-set the transaction and also intend either to settle on a net basis or to realize the asset and settle the liability simultaneously.

3. Accounting estimates and judgments

The preparation of the financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

- 1- Impairment provision - note 2.3 and note 5
- 2- Provision of zakat and income tax - note 10

4. Cash and cash equivalents

	2018	2017
Cash in hand	20,000	20,000
Cash at banks	66,790,948	31,718,620
	66,810,948	31,738,620

5. Net investment in finance leases

5.1 Reconciliation between gross and net investment in finance leases

	2018	2017
Gross investment in finance leases	376,518,185	386,258,093
Unearned finance income	(54,595,173)	(60,778,611)
Unearned insurance revenue	(45,666,823)	(50,127,707)
Present value of minimum lease payments receivable	276,256,189	275,351,775
Unamortized transaction cost	35,279	(281,730)
Provision for impairment	(42,804,399)	(42,442,208)
Net investment in finance leases	233,487,069	232,627,837

5.2 Maturity profile of gross investment in finance and present value of minimum lease payments receivables is as follows:

	2018	2017
Gross investment in finance leases		
Within one year	189,402,973	161,420,127
From one to three years	160,018,508	186,302,427
Three to five years	27,096,704	38,535,539
	376,518,185	386,258,093
Present value of minimum lease payments receivable		
Within one year	140,561,449	115,464,613
From one to three years	116,044,386	132,483,703
Three to five years	19,650,354	27,403,459
	276,256,189	275,351,775

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5.3 The movement in impairment provision for finance leases is as follows:

	Note	2018	2017
Opening balance		42,442,208	29,322,636
Adjustment on adoption of IFRS 9		-	12,999,857
January 1,		42,442,208	42,322,493
(Reversal) / provision during the period / year	6.4	(10,757,439)	28,287,115
Previously written-off receivable recognised and fully provided for		11,119,630	-
Written - off during the year		-	(21,376,226)
Transfer as part of repossessed assets held for sale	7.3	-	(6,791,174)
Closing balance		42,804,399	42,442,208

As explained in Note 2, the Company elected not to restate prior periods, and accordingly, the difference between previous carrying amount of the provision for impairment calculated on incurred loss model and the provision for impairment calculated on the expected loss model were recognized in the opening retained earnings / accumulated losses for the year 2017 and presented in the statement of changes in shareholders' equity.

5.4 Provision for impairment - net

	2018	2017
(Reversal of) / (provision for) impairment	(10,757,439)	28,287,115
Recoveries after written - off	(6,821,072)	(6,852,298)
Impairment on repossessed assets held for sale – note 7.3	2,031,936	-
	(15,546,575)	21,434,817

5.5 The Company currently generates substantially all of its revenues from leasing of motor vehicles, heavy equipment and machinery in the Kingdom of Saudi Arabia. Finance leases receivables of the Company are related to corporate and retail customers. The credit risk on net investment in finance leases is generally mitigated by the retention of legal title documents on leased assets.

6. Investment at fair value through other comprehensive income

The Company made an advance for investment amounting to SR 892,850 thousand for 89,285 shares at SR 10 for each share representing 2.3% ownership in the share capital of "Saudi Leasing for Contract Registration Company".

7. Prepayments and other current assets

	Note	2018	2017
Prepaid expenses		444,701	3,641,324
Recoverable claims and penalties		8,075,511	2,798,763
Bank guarantee	7.1	-	2,060,962
Receivable from ex - employee		-	2,036,434
Employees loans receivable		1,356,847	903,070
Repossessed assets held for sale - net of provisions	7.2	3,888,864	750,408
Advances to suppliers		2,123,432	181,200
VAT Input (net)		249,225	-
Other		390,172	5,500
		16,528,752	12,377,661

7.1 This represents bank guarantee issued in relation to the pending tax assessments.

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7.2 Repossessed assets held for sale

	2018	2017
Receivable from customers	6,023,846	7,541,582
Provision transferred from net investment in finance leases	-	(6,791,174)
Provision for receivable from customers	<u>(2,134,982)</u>	-
	<u>3,888,864</u>	<u>750,408</u>

8. Property and equipment

<u>2018</u>	Leasehold improvements	Furniture, fixtures and office equipment	Computers and software	Work in progress	Total
Cost:					
January 1, 2018	12,434,342	8,048,384	8,995,161	-	29,477,887
Additions	-	227,285	126,470	961,640	1,315,395
December 31, 2018	12,434,342	8,275,669	9,121,631	961,640	30,793,282
Accumulated depreciation:					
January 1, 2018	12,068,947	6,934,802	8,493,836	-	27,497,585
Charge for the year	58,521	266,810	205,503	-	530,834
December 31, 2018	12,127,468	7,201,612	8,699,339	-	28,028,419
Net book value:					
December 31, 2018	<u>306,874</u>	<u>1,074,057</u>	<u>422,292</u>	<u>961,640</u>	<u>2,764,863</u>

<u>2017</u>	Leasehold improvements	Furniture, fixtures and office equipment	Computers and software	Work in progress	Total
Cost:					
January 1, 2017	12,165,275	7,338,022	8,673,659	-	28,176,956
Additions	269,067	710,362	321,502	-	1,300,931
December 31, 2017	12,434,342	8,048,384	8,995,161	-	29,477,887
Accumulated depreciation:					
January 1, 2017	11,996,111	6,690,397	8,294,868	-	26,981,376
Charge for the year	72,836	244,405	198,968	-	516,209
December 31, 2017	12,068,947	6,934,802	8,493,836	-	27,497,585
Net book value:					
December 31, 2017	<u>365,395</u>	<u>1,113,582</u>	<u>501,325</u>	<u>-</u>	<u>1,980,302</u>

9. Accrued expenses and other liabilities

	2018	2017
Accrued salaries, wages and benefits	1,783,261	1,173,095
Accrued commission	288,767	940,822
Charity payables	414,280	840,560
Accrued professional fees	850,500	104,250
Accrued leased vehicle insurance	606,862	-
Other	847,048	337,685
	<u>4,790,718</u>	<u>3,396,412</u>

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10. Provision for zakat and income tax

Provision of zakat is calculated at 2.5% based on adjusted net income or zakat base, whichever is higher. The related movement is as follows:

	2018	2017
Balance at the beginning of the year	31,220,165	29,220,226
Charged for the year	1,965,584	1,999,939
Paid for the year	(2,635,142)	-
Closing balance	30,550,607	31,220,165

The calculation of estimated adjusted net income and zakat base is as follows:

	2018	2017
Comprehensive Income / (loss) for the year	14,238,862	(21,380,181)
Provision for impairment	11,119,630	21,434,817
Provision of employees' termination benefits	679,701	209,748
Adjusted net income (loss)	26,038,193	264,384
Adjustments opening balance:		
Share capital and proposed increase therein	213,172,000	330,000,000
Statutory reserves	3,739,910	3,739,910
Accumulated losses	-	(81,789,060)
Provision for impairment	31,684,769	29,322,636
Provision of employees' termination benefits	3,653,087	3,847,615
Zakat provision	28,585,023	29,220,226
Property and equipment	(2,764,863)	(1,980,302)
Net investment in finance leases	(276,256,189)	(232,627,837)
Borrowings	45,000,000	-
Other	5,771,419	-
Zakat base	78,623,349	79,997,572
Zakat for the year @ 2.5%	1,965,584	1,999,939

Status of assessments:

The Company obtained the final assessments from the General Authority for Zakat and Tax ("GAZT") for the years 2000 through 2004. During the year 2010, the Company filed objections against 2005 and 2006 final assessments and the management is currently following up with the GAZT on those objections. The main difference between the GAZT's assessments and the Company's zakat and income tax returns, is primarily due to the treatment of net investment in finance leases, where the net investment is disallowed by the GAZT as deduction from the zakat base. As the management believes that it's an industry wide issue and adequate provision were already maintained to meet any liability that might arise against any probable settlement under the final zakat assessments.

The Company filed its zakat and income tax returns for the years from 2007 through 2017 which are still under review by the GAZT. The return for 2018 will be filed in due course.

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11. Borrowings

The Company obtained a loan amounting to SR 45 million from the Social Development Bank ("SDB") in relation to Small and Medium Enterprises General Authority ("Monsha'at") program for financing small and medium enterprises in the Kingdom of Saudi Arabia. The loan received is non-interest bearing and is payable over three years based on monthly installments starting from January 1, 2019.

	2018	2017
Long term loan	45,000,000	-
Less: current maturity	(14,775,711)	-
	30,224,289	-

12. Provision for employee termination benefits

	2018	2017
Balance at the beginning of the year	4,057,363	3,847,615
Provided during the year	679,701	577,468
Paid during the year	(404,276)	(367,720)
Actuarial losses through OCI	334,469	-
Balance at the end of the year	4,667,257	4,057,363

12.1 Principal actuarial assumptions at the reporting date are as follows:

	2018	2017
Discount rate	4%	3%
Salary increment	2.5%	2.5%
Retirement age	60	60

12.2 Sensitivity of the actuarial assumptions

A change of 1% in discount rate and salary increment would have increased or decreased the employees' end of service benefits by SR 0.27 million & SR 0.3 million respectively.

13. Share capital

	2018	2017
Opening balance	330,000,000	200,000,000
Transfer from proposed increased in share capital	-	130,000,000
Decrease in share capital	(116,828,000)	-
Closing balance	213,172,000	330,000,000

Shareholding position as at December 31, 2018 was as follows:

Shareholders	Number of shares	Percentage of ownership	Share capital
Al Bilad for Trading and Economy	9,592,740	45%	95,927,400
Fal Holding Arabia Company Limited	5,329,300	25%	53,293,000
Falcom Holding	4,263,440	20%	42,634,400
Mr. Fahed Bin Mohammad Bin Saleh Alathel	2,131,720	10%	21,317,200
	21,317,200	100%	213,172,000

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Shareholding position as at December 31, 2017 was as follows:

Shareholders	Number of shares	Percentage of ownership	Share capital
Al Bilad Establishment for Trading and Economy	14,850,000	45%	148,500,000
FAL Holding Arabia Company Limited	8,250,000	25%	82,500,000
Falcom Holdings	6,600,000	20%	66,000,000
Sheikh Fahed Bin Mohammad Bin Saleh Alathel	3,300,000	10%	33,000,000
	33,000,000	100%	330,000,000

14. Statutory reserve

In accordance with Regulations for Companies in Saudi Arabia, the Company is required to set aside a statutory reserve, after absorption of accumulated losses, by the appropriation of at least 10% of net income until the reserve equals 30% (2017: 30%) of the share capital. No amount has been transferred to statutory reserve as the Company has incurred net loss during this financial year.

The Company is in process to update its by-laws to be in line with the above 30% threshold specified in the regulations for companies.

15. Finance lease revenue

The balance includes gain of SR 169 thousand (2017: SR 207 thousand) on insurance of vehicles under finance lease.

16. Other general and administrative expenses

	2018	2017
Legal and professional fees	4,955,263	2,327,983
Rentals	2,028,687	2,103,472
Fees and subscriptions	769,402	777,546
Maintenance	802,496	526,707
Utilities	495,666	286,072
Advertising	285,881	277,356
Business travel	113,038	174,814
Other	1,193,741	367,963
	10,644,174	6,841,913

17. Finance cost

	2018	2017
Bank charges	178,591	195,191
Finance cost on borrowings	-	31,658
	178,591	226,849

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18. Other (expense)/ income

	2018	2017
Return on Murabaha investments	105,000	302,042
Other	(179,305)	550,761
	(74,305)	852,803

19. Contingency and commitments

Contingency

The contingency related to zakat and income tax is disclosed in note10 to these financial statements.

Commitments

As at December 31, 2018 and 2017, the Company's commitments to extend credit on lease contracts amounted to SR 5.3 million and SR 0.24 million, respectively.

The operating lease commitments for the Company's office premises are as follows:

	2018	2017
Less than one year	132,000	111,000
More than a year and less than five years	738,000	511,000
Total	870,000	622,000

20. Fair values of financial assets and financial liabilities

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

Level 1: quoted market prices (unadjusted) in active markets for identical financial assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: inputs that are unobservable.

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

In accordance with the requirements of IAS 39, previously all of the debt instruments (financial assets and liabilities) of the Company were classified as held to maturity and measured at amortized cost. On adoption to IFRS 9, those were classified and measured at amortized cost, which is approximate to their fair value and the breakdown of those were as follows:

	Note	2018	2017
Financial asset - debt instruments			
Cash and cash equivalents	4	67,310,948	31,738,620
Net investment in finance leases	5	233,487,069	232,627,837
Other assets	7	10,071,755	7,804,729
		310,869,772	272,171,186
Financial liabilities			
Accounts payable		5,756,742	22,995,297
Accrued expenses and other liabilities	9	4,790,718	3,396,412
Borrowings	11	45,000,000	-
		55,547,460	26,391,709
Net financial assets		255,322,312	245,779,477

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21. Financial instruments and risk management

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, commission rate risk), credit risk and liquidity risk. The Company's overall risk management program, which is carried out by senior management, focuses on having cost effective funding as well as managing financial risks to minimize earning volatility and provide maximum return to shareholders. The risks faced by the Company and their respective mitigating strategies are summarized below.

21.1 Credit risk

Credit risk is the risk that one party of a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The maximum exposure to credit risk is equal to the carrying amount of financial assets. The management analyses credit risk in the following categories:

Net investment in finance leases

Investment in finance lease is generally exposed to significant credit risk. Therefore, the Company has established procedures to manage credit exposure including evaluation of lessees' credit worthiness, formal credit approvals, assigning credit limits, obtaining collateral such as title on leased assets, and personal guarantees.

As at December 31, aging analysis of contractual finance lease receivables, current and past due balances, was as follows:

2018

	SR '000									Total
	Current	< 30 days	31 to 60 days	61 to 90 days	91 to 120 days	121 to 180 days	181 to 270 days	271 to 360 days	Above 360 days	
December 31, 2018										
Expected loss rates	6.00	7.50	10.00	12.00	15.00	20.00	50.00	75.00	100.00	
Carrying amount of portfolio	58,906	139,148	30,802	15,010	3,611	4,380	2,506	2,443	19,450	276,256
Impairment provision	3,534	10,436	3,080	1,801	542	876	1,253	1,832	19,450	42,804

2017

	SR '000									Total
	Current	< 30 days	31 to 60 days	61 to 90 days	91 to 120 days	121 to 180 days	181 to 270 days	271 to 360 days	Above 360 days	
December 31, 2017										
Expected loss rates	10.86	12.76	12.73	12.90	42.04	56.57	63.00	64 - 85	86 - 100	
Carrying amount of portfolio	70,115	142,301	32,722	14,354	3,539	4,434	2,811	473	4,603	275,352
Impairment provision	7,615	18,164	4,164	1,852	1,488	2,508	1,771	277	4,603	42,442

The management believes that adequate provision has been accounted for, where required to address the credit risk. Further details related to net investment in finance leases and related risk are presented in Note 2.3 and note 5 to these financial statements.

Cash and cash equivalents and other receivables

These are placed with banks having good credit ratings, and therefore are not subject to significant credit risk. Other receivables are not exposed to significant credit risk.

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21.2 Commission rate risk

Commission rate risk is the uncertainty of future earnings resulting from fluctuations in commission rates. The risk arises when there is a mismatch in the assets and liabilities which are subject to commission rate adjustment within a specified period. The management analysed that as at statement of financial position date, the Company's leasing activities are not subject to commission rate risk as the profit amounts are fixed at the inception of the leases. Further, the Company is not subject to commission rate risk as SR 45 million (2017: Nil) liabilities were subject to commission rate risk as at statement of financial position date.

21.3 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company has no significant exposure to currency risk as it mainly deals in Saudi Riyals which is also the functional currency of the Company.

21.4 Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its payment obligations when they fall due under normal and stress circumstances. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to be less readily available. As at statement of financial position date, the Company was not exposed to significant liquidity risk and the maturity profile of assets and liabilities as analyzed by the management was as follows:

2018	Up to one year	One to three years	More than three years	No fixed maturity	TOTAL
ASSETS					
Cash and cash equivalents	66,810,948	-	-	-	66,810,948
Short term deposit	500,000	-	-	-	500,000
Net investment in finance leases	118,817,783	98,063,689	16,605,597	-	233,487,069
Advances for investment	-	-	-	892,850	892,850
Prepayments and other current assets	16,528,752	-	-	-	16,528,752
Property and equipment	-	-	-	2,764,863	2,764,863
Total assets	202,657,483	98,063,689	16,605,597	3,657,713	320,984,482
Liabilities					
Accounts payable	5,756,742	-	-	-	5,756,742
Advances from customer	2,375,007	-	-	-	2,375,007
Accrued expenses and other liabilities	4,790,718	-	-	-	4,790,718
Provision for zakat and income tax	1,965,584	-	-	28,585,023	30,550,607
Borrowings	14,775,711	30,224,289	-	-	45,000,000
Provision for employee termination benefits	-	-	-	4,667,257	4,667,257
Total liabilities	29,663,762	30,224,289	-	33,252,280	93,140,331
Total shareholders' equity	-	-	-	227,844,151	227,844,151
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	29,663,762	30,224,289	-	261,096,431	320,984,482
2017					
	Up to one year	One to three years	More than three years	No fixed maturity	TOTAL
ASSETS					
Cash and cash equivalents	31,738,620	-	-	-	31,738,620
Net investment in finance leases	97,385,384	112,062,912	23,179,541	-	232,627,837
Advances for investment	-	-	-	892,850	892,850
Prepayments and other current assets	12,377,661	-	-	-	12,377,661
Property and equipment	-	-	-	1,980,302	1,980,302
Total assets	141,501,665	112,062,912	23,179,541	2,873,152	279,617,270
Liabilities					
Accounts payable	22,995,297	-	-	-	22,995,297
Advances from customer	2,377,160	-	-	-	2,377,160
Accrued expenses and other liabilities	3,396,412	-	-	-	3,396,412
Provision for zakat and income tax	10,610,913	-	-	20,609,252	31,220,165
Provision for employee termination benefits	-	-	-	4,057,363	4,057,363
Total liabilities	39,379,782	-	-	24,666,615	64,046,397
Total shareholders' equity	-	-	-	215,570,873	215,570,873
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	39,379,782	-	-	240,237,488	279,617,270

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22. Capital risk management

The Company's objective when managing capital are to safeguard Company's ability to continue as a going concern in order to provide returns for the shareholders and benefits to other stakeholders. The Company primarily finances its operations and manage its working capital through shareholders' equity.

23. Related party transactions and balances

Significant related party transactions during the year were as follows:

	2018	2017
Shareholders		
Rental expenses	1,512,000	1,512,000
Loan received and repaid	25,000,000	-
Other related parties		
Finance lease income	35,336	271,491
Affiliates – short term deposit	500,000	-
Key management compensation		
Salaries and other short-term employee benefits	5,653,460	2,538,130
Retirement benefits	129,841	80,871
Finance lease income	-	2,541

Key management personnel of the Company include directors and senior management.

Significant related party balances as at statement of financial position date included in net investment in finance lease of SR 242 thousand (2017: SR 317 thousand) is related to a key management person and short term deposit of SR 0.5 million (2017: nil) due from an affiliate for Tawaruq financing.

24. Date of authorization of issue

These financial statements were approved and authorized for issue by the Board of Directors on February 6, 2019.