

**AJIL FINANCIAL SERVICES COMPANY
(A Saudi Closed Joint Stock Company)**

FINANCIAL STATEMENTS

31 DECEMBER 2019

**INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF AJIL FINANCIAL SERVICES COMPANY
(A Saudi Closed Joint Stock Company)**

Opinion

We have audited the financial statements of AJIL Financial Services Company (A Saudi Closed Joint Stock Company) (the "Company"), which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") that are endorsed in the Kingdom of Saudi Arabia ("KSA") and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants ("SOCPA") (collectively referred to as "IFRS as endorsed in KSA").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") 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 are independent of the Company in accordance with professional code of 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 the IFRS as endorsed in KSA, and the provisions of Companies' Law and Company's By-laws, and for such internal control as management determine 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 the Management either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

**INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF AJIL FINANCIAL SERVICES COMPANY
(A Saudi Closed Joint Stock Company) (continued)**

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

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.

We also provide the management with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on other legal and regulatory requirements

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

for Ernst & Young

Ahmed I. Reda
Certified Public Accountant
License No. 356

23 February 2020
29 Jumada II 1441H

Jeddah
20/41/MNA



AJIL Financial Services Company
(A Saudi Closed Joint Stock Company)

STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019

	Notes	2019 SR	2018 SR (Restated)
Revenues	21	<u>155,792,652</u>	<u>180,615,510</u>
OPERATING EXPENSES			
Credit loss on finance lease	6	(29,192,674)	(34,343,358)
Credit loss on murabaha financing	7	(7,930,664)	(2,319,669)
Depreciation of property and equipment	10(a)	(1,587,511)	(1,696,477)
Amortization of right of use assets	10(b)	(1,730,636)	-
Amortization of intangibles	11	(993,227)	(1,575,306)
General and administrative expenses	22	(56,976,508)	(56,704,912)
Finance costs	23	(26,514,907)	(35,905,298)
		<u>(124,926,127)</u>	<u>(132,545,020)</u>
PROFIT FOR THE YEAR BEFORE ZAKAT AND INCOME TAX		30,866,525	48,070,490
Zakat and income tax	20	(6,626,618)	(7,250,129)
PROFIT FOR THE YEAR AFTER ZAKAT AND INCOME TAX		<u>24,239,907</u>	<u>40,820,361</u>

The attached notes 1 to 30 form an integral part of these financial statements.

AJIL Financial Services Company
(A Saudi Closed Joint Stock Company)

STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Note	2019 SR	2018 SR (Restated)
Profit for the year after zakat and income tax		24,239,907	40,820,361
Other comprehensive income:			
<i>Items not to be reclassified to statement of profit or loss in subsequent periods:</i>			
Re-measurement gains on employees' defined benefit liabilities	16	35,986	-
Total other comprehensive income for the year		35,986	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		24,275,893	40,820,361

The attached notes 1 to 30 form an integral part of these financial statements.

AJIL Financial Services Company
(A Saudi Closed Joint Stock Company)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	2019 SR	2018 SR
ASSETS			
Cash and bank balances	4	37,184,787	31,157,148
Advances, prepayments and other receivables	5	40,290,916	145,013,264
Net investment in finance lease	6	1,347,979,745	1,290,751,329
Murabaha financing receivables	7	227,381,536	206,954,244
Margin deposits	8	13,236,934	1,669,860
Property and equipment	10(a)	3,850,255	4,419,130
Right of use assets	10(b)	2,189,958	-
Intangible assets	11	2,870,927	2,336,070
Equity investment at fair value through other comprehensive income	12	892,850	892,850
TOTAL ASSETS		1,675,877,908	1,683,193,895
EQUITY AND LIABILITIES			
EQUITY			
Share capital	13	500,000,000	500,000,000
Statutory reserve	14	100,572,044	98,148,053
Retained earnings		284,673,643	283,792,185
Actuarial losses on employees' defined benefit liabilities	16	(2,911,214)	(2,947,200)
TOTAL EQUITY		882,334,473	878,993,038
LIABILITIES			
Trade, accrued and other payables	17	40,883,562	121,522,231
Due to related parties	18	1,100,931	5,562,309
Net servicing liability for sold finance lease receivable	9	2,418,973	2,810,024
Lease Liabilities in respect of right of use assets	10(b)	1,125,860	-
Term loans	19	725,860,362	612,600,000
Zakat and income tax	20	6,626,618	47,723,840
Employees' defined benefit liabilities	16	15,527,129	13,982,453
TOTAL LIABILITIES		793,543,435	804,200,857
TOTAL EQUITY AND LIABILITIES		1,675,877,908	1,683,193,895

The attached notes 1 to 30 form an integral part of these financial statements.

AJIL Financial Services Company
(A Saudi Closed Joint Stock Company)

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

2019	Notes	Saudi shareholders - SR	Foreign shareholders - SR	Total SR
SHARE CAPITAL				
Balance as at 1 January 2019	13	375,000,000	125,000,000	500,000,000
Transfers (note 13)		125,000,000	(125,000,000)	-
Balance as at 31 December 2019		500,000,000	-	500,000,000
STATUTORY RESERVE	14			
Balance as at 1 January 2019		73,611,040	24,537,013	98,148,053
Transfers		24,537,013	(24,537,013)	-
Transferred from retained earnings		2,423,991	-	2,423,991
Balance as at 31 December 2019		100,572,044	-	100,572,044
RETAINED EARNINGS				
Balance as at 1 January 2019		214,394,613	69,397,572	283,792,185
Net profit for the year after zakat and income tax		22,316,680	1,923,227	24,239,907
Dividend	15	(24,035,245)	-	(24,035,245)
Prior year adjustments related to zakat and income tax		3,100,787	-	3,100,787
Transfer		71,320,799	(71,320,799)	-
Transferred to statutory reserve		(2,423,991)	-	(2,423,991)
Balance as at 31 December 2019		284,673,643	-	284,673,643
ACTUARIAL LOSSES ON EMPLOYEES' DEFINED BENEFIT LIABILITIES				
Balance as at 1 January 2019		(2,210,400)	(736,800)	(2,947,200)
Transfers	16	(736,800)	736,800	-
Other comprehensive income for the year		35,986	-	35,986
Balance as at 31 December 2019		(2,911,214)	-	(2,911,214)
TOTAL EQUITY		882,334,473	-	882,334,473
2018				
SHARE CAPITAL				
Balance as at 1 January 2018 and 31 December 2018	13	375,000,000	125,000,000	500,000,000
STATUTORY RESERVE	14			
Balance as at 1 January 2018		70,005,753	23,335,251	93,341,004
Transferred from retained earnings		3,605,287	1,201,762	4,807,049
Balance as at 31 December 2018		73,611,040	24,537,013	98,148,053
RETAINED EARNINGS				
Balance as at 1 January 2018		202,891,898	66,304,115	269,196,013
Net profit for the year after zakat and income tax		32,447,580	8,372,781	40,820,361
Dividend	15	(17,339,578)	(4,077,562)	(21,417,140)
Transferred to statutory reserve		(3,605,287)	(1,201,762)	(4,807,049)
Balance as at 31 December 2018		214,394,613	69,397,572	283,792,185
ACTUARIAL LOSSES ON EMPLOYEES' DEFINED BENEFIT LIABILITIES				
Balance as at 1 January 2018		(2,210,400)	(736,800)	(2,947,200)
Balance as at 31 December 2018		(2,210,400)	(736,800)	(2,947,200)
TOTAL EQUITY		660,795,253	218,197,785	878,993,038

The attached notes 1 to 30 form an integral part of these financial statements.

AJIL Financial Services Company
(A Saudi Closed Joint Stock Company)

STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

		2019	2018
	<i>Notes</i>	SR	SR
OPERATING ACTIVITIES			
Profit for the year before zakat and income tax		30,866,525	48,070,490
Adjustments for:			
Depreciation of property and equipment	10(a)	1,587,511	1,696,477
Amortization of right of use assets	10(b)	1,730,636	-
Amortization of intangible assets	11	993,227	1,575,306
Credit loss on finance lease	6	29,192,674	34,343,358
Credit loss on murabaha financing receivables		7,930,664	2,319,669
Employees' defined benefit liabilities	16	2,176,187	1,698,513
Gain on disposal of property and equipment		(39,619)	(1,861)
Change in provisions in respect of margin deposits	8	(1,018,243)	(1,490,566)
Income in respect of sold finance lease receivables		(4,740,475)	(13,047,936)
Operating profit before changes in operating assets and liabilities		68,679,087	75,163,450
Changes in operating assets and liabilities:			
Net investment in finance leases		(96,904,601)	350,021,838
Murabaha financing receivables		(28,357,956)	(168,059,379)
Advances, prepayments and other receivables		103,592,875	51,780,010
Margin deposits		(65,320)	28,075,647
Due from related parties		-	844,113
Trade, accrued and other payables		(119,771,734)	1,596,838
Due to related parties		(4,461,378)	2,696,787
Lease liabilities in respect of right of use assets		107,739	-
Net servicing liability for sold finance lease receivables		4,349,424	14,145,933
Cash (used in) / from operations		(72,831,864)	356,265,237
Zakat and income tax paid	20	(5,489,988)	(9,028,810)
Employee's defined benefits paid	16	(595,525)	(2,280,918)
Net cash (used in) / from operating activities		(78,917,377)	344,955,509
INVESTING ACTIVITIES			
Purchase of property and equipment and intangible assets	10 & 11	(2,781,866)	(1,469,096)
Proceeds from disposal of property and equipment		274,765	7,035
Net cash used in investing activities		(2,507,101)	(1,462,061)
FINANCING ACTIVITIES			
Net movement in term borrowings		113,260,362	(355,177,080)
Dividends paid	15	(24,035,245)	(4,077,562)
Payment of principal portion of lease liabilities		(1,773,000)	-
Net cash from / (used in) financing activities		87,452,117	(359,254,642)
NET INCREASE/(DECREASE) IN CASH AND BANK BALANCES		6,027,639	(15,761,194)
Cash and bank balances at the beginning of the year	4	31,157,148	46,918,342
CASH AND BANK BALANCE AT THE END OF THE YEAR		37,184,787	31,157,148

The attached notes 1 to 30 form an integral part of these financial statements.

AJIL Financial Services Company (A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2019

1 ACTIVITIES

AJIL Financial Services Company (the “Company” or “AJIL”) is registered in the Kingdom of Saudi Arabia under commercial registration number 4030122889, dated 30 Rajab 1418H (corresponding to 30 November 1997). The legal status of the Company was changed from a Limited Liability Company to a Closed Joint Stock Company under Ministerial Declaration number 206/Q, dated 18 Jumad Thani 1429H (corresponding to 22 June 2008), and according to Companies Law Provisions issued by Royal Decree number M/6 dated 27 Thul Quada 1417H (corresponding to 5 April 1997).

A new commercial registration certificate under the same number was issued by the Ministry of Commerce on 11 Rajab 1429H (corresponding to 14 July 2008).

The Company’s objectives are to carry out financial leasing transactions, as well as finance productive assets to small and medium enterprises including:

1. Financing of fixed and moveable assets, peripherals, accessories and spare parts thereof, including but not limited to industrial, agricultural, commercial, artisanal, professional, therapeutic, educational, recreational, energy, water and sewage facilities and projects; equipment used in warehouses, production equipment and machinery, equipment used in the medical field, in construction, transportation, airport, railroads and stations associated therewith; cranes and vehicles (Including Trucks, buses, trains, cars, whether manufactured or retrofitted for civil defense, airports or other such purposes), office equipment, stationery and computers; and
2. Buying, selling, leasing and renting commercial real estate, lands and buildings of all kinds, transferring them and disposing thereof for the purposes of finance leasing and signing finance lease contracts for all the foregoing; including registering and transferring commercial and residential real estate, lands and buildings used as collateral for financing operations related to the company’s financing activities.

The Company’s Head Office is located at the following address;

AJIL Financial Services Company
Jeddah 101 Building
Sari Street
P.O. Box 13624
Jeddah 21414
Kingdom of Saudi Arabia

On 21 Rajab 1435H (corresponding to 20 May 2014), the Company received a license from the Saudi Arabian Monetary Authority (“SAMA”) to conduct lease financing business in the Kingdom of Saudi Arabia. The Finance Companies Control Law was issued by the Saudi Council of Ministers through its publication No. 259 dated 12 Shabaan 1433H (corresponding to 2 July 2012) and the Royal Decree No. 51 dated 13 Shabaan 1433H (corresponding to 3 July 2012) and their implementing regulations were issued by SAMA for conducting lease financing business in the Kingdom of Saudi Arabia.

On 01 Muharram 1439H (corresponding to 21 Sep 2017), the Company received a no objection certificate from SAMA to conduct commodity murabaha business in the Kingdom of Saudi Arabia.

These financial statements include the results, assets and liabilities of the following branches:

Commercial Registration Number	Location
2050044861	Dammam
2051031244	Al-Khobar
5850027895	Abha
1010194653	Riyadh
4030612980	Jeddah

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

2 BASIS OF PREPARATION

2.1 STATEMENT OF COMPLIANCE

The financial statements of the Company as at and for the year ended 31 December 2019 have been prepared:

- in accordance with International Financial Reporting Standards (“IFRSs”) that are endorsed in the Kingdom of Saudi Arabia (“KSA”) and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants (“SOCPA”) (collectively referred to as “IFRSs as endorsed in KSA”).
- in compliance with the Companies’ Law in the Kingdom of Saudi Arabia and Company’s By-Laws.

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

On 17 July 2019, SAMA instructed the finance companies in the Kingdom of Saudi Arabia to account for the zakat and income taxes in the statement of income.

Accordingly, the Company changed its accounting treatment for zakat and income tax by retrospectively adjusting the impact in line with International Accounting Standard 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (as disclosed in note 3) and the effects of this change are disclosed in note 20 to the financial statements. Further, the Company has adopted IFRS 16 “Leases” from 1 January 2019. The change in accounting policies due to this new standard and change in treatment of Zakat and income tax are disclosed in the Note 3.

Assets and liabilities in the statement of financial position are presented in the order of liquidity.

2.2 BASIS OF MEASUREMENT

These financial statements have been prepared on a historical cost convention using accrual basis of accounting, except for the measurement at fair value of ‘Investment classified as fair value through other comprehensive income (FVOCI).

2.3 FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements have been presented in Saudi Riyals (SR) which is the Company’s functional and presentation currency.

2.4 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company’s financial statements in conformity with IFRSs as endorsed in KSA, requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that may require a material adjustment to the carrying amount of related assets or liabilities, in future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company’s management. Such changes are reflected in the assumptions when they occur.

Going concern

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

2 BASIS OF PREPARATION (continued)

2.4 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Determination of servicing assets / liability

The Company enters into securitization and agency arrangements with banks. Under these arrangements, the Company has been appointed by the banks to service the receivables purchased by the banks. Assumptions used to calculate the servicing assets/ liability are based on estimates of collection costs to be incurred by the Company over the life of the individual securitization and agency transaction, executed under the respective securitization and agency agreement.

Determination of discount rate for present value calculations

Discount rate represents the current market assessment of the risks specific to the Company, taking into consideration the tenure of the agreement and the individual risks of the underlying assets. The discount rate is based on the specific circumstances of the Company.

Actuarial valuation of employee benefits liabilities

The cost of the end-of-service ("employee benefits") under defined unfunded benefit plan is determined using actuarial valuation. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, and mortality rates. Due to the complexity of the valuation and its long-term nature, defined unfunded benefit liabilities are highly sensitive to changes in these assumptions. All assumptions are reviewed on an annual basis or more frequently, if required.

Credit losses of finance lease and murabaha financing receivables

The Company follows guidance of IFRS 9 of simplified approach to assess expected credit losses against finance lease receivables and general approach for muabaha finance receivables. Impairment assessment requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Company's Expected Credit Loss (ECL) calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Company's model for determination of defaults, which assigns loss rate (LR) to the individual pool of receivables and assessing the exposure at default (EAD).
- The Company's criteria for assessing the credit losses for finance leases and murabaha financing receivables to be measured on a Lifetime Expected Credit Loss (LTECL) basis and the qualitative assessment.
- The segmentation of finance leases and murabaha financing receivables when their ECL is assessed on a collective basis.
- Development of ECL models, including the various formulas and the appropriate inputs.
- Determination of associations between macroeconomic scenarios and, economic inputs, such as government spending, and the effect on LR.
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

At the reporting date, outstanding finance lease receivables and murabaha finance receivable were SR 1.65 billion (2018: SR 1.63 billion) and SR 238.05 million (2018: SR 209.69 million), respectively and the allowance for credit losses relating to finance lease and murabaha finance receivable amounts to SR 303.20 million (2018: SR 336.88 million) and SR 10.67 million (2018: SR 2.74 million), respectively.

Any difference between the amounts actually collected in future periods and the amounts expected to be collected will be recognised in the statement of profit or loss of those periods.

Classification of financial assets

Assessment of business model within which the assets are held and assessment of whether the contractual terms of the financial assets are solely payment of principal and profit of the principal amount outstanding.

2 BASIS OF PREPARATION (continued)

2.4 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Useful lives of property and equipment

The management determines the estimated useful lives of its property and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

Useful life of intangible assets

The Company's management determines the estimated useful lives of its intangible assets for calculating amortisation. This estimate is determined after considering the expected benefit obtained from the usage of the intangible assets. Management reviews the carrying value and useful lives annually and future amortisation charge would be adjusted where the management believes the useful lives differ from previous estimates.

Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as prepayment risk, liquidity risk, credit risk and volatility.

Determining the lease term of contracts with renewal and termination options – Company as lessee

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

The Company has several lease contracts that include extension and termination options. The Company applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate. The Company included the renewal period as part of the lease term for leases due to the significance of leased assets to its operations.

Leases – Estimating the incremental borrowing rate

The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of these financial statements are consistent with those used in the preparation of the Company's financial statements for the year ended 31 December 2018, except for:

a) CHANGES IN THE ACCOUNTING FOR ZAKAT AND INCOME TAX

As mentioned above, the basis of preparation has been changed for the year ended 31 December 2019 as a result of the issuance of latest instructions from SAMA dated 17 July 2019. Previously, zakat and income tax were recognized in the statement of changes in equity as per the SAMA circular no 381000074519 dated 11 April 2017. With the latest instructions issued by SAMA dated 17 July 2019, the zakat and income tax shall be recognized in the statement of income. The Company has accounted for this change in the accounting for zakat and income tax retrospectively (see note 3) and the effects of the above change are disclosed in note 20 to the financial statements. The change has resulted in reduction of reported income of the Company for the year ended 31 December 2018 by SR 7.25 million. The change has had no impact on the statement of cash flows for the year ended 31 December 2019.

AJIL Financial Services Company
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS

Effective 1 January 2019 the Company has adopted IFRS 16 “Leases” for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard is described below:

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the financial statements of the Company. The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Company is the lessor.

The Company adopted IFRS 16 using the simplified approach of adoption with the date of initial application of 1 January 2019. The Company elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

The effect of adoption IFRS 16 as at 1 January 2019 (increase/ (decrease)) is as follows:

	1 January 2019 SR ('000) Unaudited
Assets	
Right of use assets	3,920,594
Advances, prepayments and other receivables	(1,129,473)
Total assets	2,791,121
Liabilities	
Lease liabilities in respect of right of use assets	2,791,121
Total liabilities	2,791,121

The Company has lease contracts for various branches and before adoption of IFRS 16, the Company classified each of its leases (as lessee) at the inception date as an operating lease. In an operating lease, the leased branch was not capitalised and the lease payments were recognised as rent expense in statement of comprehensive income on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under “Prepayments and other receivables” and “Trade, accrued and other liabilities”, respectively.

Upon adoption of IFRS 16, the Company applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Company.

The Company also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (‘short-term leases’), and lease contracts for which the underlying asset is of low value (‘low-value assets’).

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS (continued)

Leases previously accounted for as operating leases

The Company recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Company also applied the available practical expedients wherein it:

- Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Based on the foregoing, as at 1 January 2019:

- Right-of-use assets of SR 3.92 million were recognized and presented within property and equipment in the statement of financial position;
- Lease liabilities of SR 2.79 million were recognized in "Trade, accrued and other liabilities" in the statement of financial position; and
- Prepayments of SR 1.13 million were derecognized.

c) AMENDMENTS TO THE EXISTING STANDARDS

The adoption of the following amendments to existing standards which had no significant financial impact on the financial statements of the Company on the current period or prior period and is expected to have no significant effect in future periods:

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at AC or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the financial statements of the Company.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in statement of income. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) AMENDMENTS TO THE EXISTING STANDARDS (continued)

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (continued)

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Company.

d) STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued but not yet effective, up to the reporting date are disclosed below. The Company intends to adopt these standards, when they become effective.

Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform

In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an RFR).

The amendments apply to annual periods beginning on or after 1 January 2020 and must be applied retrospectively. However, any hedge relationships that have previously been de-designated cannot be reinstated upon application, nor can any hedge relationships be designated with the benefit of hindsight. Early application is permitted and must be disclosed. These amendments are not applicable to the Company.

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.' The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

The amendments apply to annual periods beginning on or after 1 January 2020 and must be applied prospectively. Early application is permitted and must be disclosed. The Company is not expecting any change due to adoption of these amendments.

Interest rate benchmark reform

A fundamental reform of major interest rate benchmarks is being undertaken globally to replace or reform IBOR with alternative risk-free rates (referred to as 'IBOR reform'). The Company has exposure to interbank offered rates (IBORs) on its financial instruments that will be replaced or reformed as part of this market-wide initiative. There is uncertainty over the timing and the methods of transition. The Company anticipates that IBOR reform will have operational, risk management and accounting impacts across all of its business lines. The Company's management is looking forward to identify operational risks arising from IBOR reform.

e) ACCOUNTING POLICIES

Income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income, based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) ACCOUNTING POLICIES (continued)

Income tax (continued)

Adjustments arising from the final income tax assessments are recorded in the period in which such assessments are made. The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted for the changes in deferred tax assets and liabilities attributable to the temporary differences and to the unused tax losses.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. This interpretation has no impact on the financial statements of the Company.

Zakat

The Company is subject to Zakat and income tax in accordance with the regulations of the General Authority of Zakat and Income Tax ("GAZT"). 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.

Right of use asset / lease liabilities

On initial recognition, at inception of the contract, the Company shall assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is identified if most of the benefits are flowing to the Company and the Company can direct the usage of such assets.

Right of use assets

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

Lease Liabilities

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) ACCOUNTING POLICIES (continued)

Short-term leases and leases of low-value assets

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

The other significant accounting policies adopted for the preparation of these financial statements are as follows:

Property and equipment

Property and equipment are initially recorded at cost and stated at cost less accumulated depreciation and any impairment in value. The cost less estimated residual value of other property and equipment is depreciated on a straight-line basis over the estimated useful lives of the assets. Capital work-in-progress is not depreciated.

Leasehold assets are depreciated on a straight line basis over the shorter of the useful life of the assets or the term of the lease after deducting the estimated residual value from the cost of such assets. The following rates of depreciation are applied:

Office equipment	20% to 25%
Furniture and fixtures	15%
Owned and leased motor vehicles	20%

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Expenditure for repairs and maintenance are charged to the statement of profit or loss. Expenditure that increases the value or materially extends the life of the related assets is capitalized.

An item of property and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that an intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss.

Subsequent costs are included in the asset's carrying amounts or recognised 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.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) ACCOUNTING POLICIES (continued)

Net investment in finance leases

The determination of whether an arrangement contains a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Gross investment in finance leases represents the gross lease payments receivable by the Company, and the net investment represents the present value of these lease payments, discounted at commission rate implicit in the lease.

Contracts based on Musharaka, which in substance represents a syndicated lease arrangement, is recorded as net investment in finance lease and is stated at cost and represent the balance of the Company's share in the Musharaka funding.

Murabaha financing receivables

Murabaha is an Islamic form of financing where the Company, based on requests from its customers, purchases specific commodities and sells them to the customers at an agreed-upon price equal to the Company's cost plus a specified profit margin, which is payable on a deferred basis in agreed-upon installments.

Cash and bank balances

Cash and bank balances in the statement of financial position comprise cash at banks in current accounts and cash on hand.

Financial instruments

Classification of financial assets

On initial recognition, a financial asset is classified as amortised cost, fair value through other comprehensive income ("FVOCI") or fair value through statement of income ("FVIS").

Financial asset at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVIS:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

Financial asset at FVOCI

Debt instruments:

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVIS:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (HTCS); and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

Equity instruments:

On initial recognition, for an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

Financial asset at FVIS

All other financial assets are classified as measured at FVIS.

In addition, on initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVIS if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing the financial assets.

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Business model assessment

The Company makes an assessment of the objective of a business model under which an asset is held, at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual profit revenue, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- how managers of the business are compensated- e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Assessments whether contractual cash flows are solely payments of principal and profit ("SPPI" criteria)

For the purposes of this assessment, 'principal' is the fair value of the financial asset on initial recognition. 'Profit' is the consideration for the time value of money, the credit and other basic lending risk associated with the principal amount outstanding during a particular period and other basic lending costs (e.g. liquidity risk and administrative costs), along with profit margin.

In assessing whether the contractual cash flows are solely payments of principal and profit, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Company considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money- e.g. periodical reset of profit rates.

Classification of financial liabilities

Upon initial recognition, the Company classifies its financial liabilities, as measured at amortised cost.

Subsequently, financial liabilities are measured at amortised cost, unless they are required to be measured at fair value through income statement or if the Company adopts to measure a liability at fair value through income statement as per the requirements of IFRS 9.

Amortized cost

Lease and murabaha receivables and other financial assets measured at amortised cost are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective profit method.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Derecognition

Financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in statement of income.

From 1 January 2019, any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in statement of income on derecognition of such securities. Any profit in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognised as a separate asset or liability. In transactions in which the Company neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Company continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Company recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in the statement of income. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as profit/loss.

Financial liabilities

The Company derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability recognized with modified terms is recognised in statement of income.

Impairment of financial assets

The Company recognizes loss allowances for ECL on the following financial instruments that are not measured at FVIS:

- financial assets that are debt instruments; and
- loan commitments issued, if any.

No impairment loss is recognised on equity investments.

The Company measures loss allowances at an amount equal to lifetime ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Impairment of financial assets (continued)

The key inputs into the measurement of ECL are based on the following variables:

- Loss rate
- Exposure at default (EAD)

The Company categorizes its leasing portfolio into four groups depending on the size of financing and associated risks:

- Large exposure of large customers
- Medium exposure of large customers
- Small exposure of large customers
- Exposure of small and medium customers

The Company also considers the forward-looking information in its assessment of significant deterioration in credit risk since origination as well as the measurement of ECLs.

The forward-looking information will include the elements such as expert judgement, macroeconomic factors (e.g., government expenditure, oil prices, inflation, manufacturing purchasing manager's index and money supply) and economic forecasts obtained through internal and external sources.

Management apply additional overlays to reflect current or future external factors that might not be captured by the expected credit loss model, if required.

Measurement of ECL

For finance lease receivables, ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date; an estimate of lifetime loss is made, considering the loss rate, exposure at defaults, taking into account the forward looking information i.e. the macro-economic factor;
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash inflows.

For murabaha financing receivables, the company measure loss allowance for stage 1 financial assets at an amount equal to 12 months expected credit losses. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime. 12 months expected credit losses are the portion of expected credit losses that result from default events on the financial assets that are possible within 12 months after the reporting period. The financial assets of the Company are categorized as follows:

Stage 1: These represent the financial assets where customers have low risk of default and a strong capacity to meet contractual cashflows.

Stage 2: these represent financial assets where there is a significant increase in credit risk and that is presumed if the customer is more than 60 days past due in making contractual payment/installment.

Stage 3: these represent defaulted financial assets. A default on a financial asset is considered when the customer fails to make a contractual payment/installment within 90 days after they fall due. The company measure the loss allowance for non-performing financial assets at an equal to lifetime expected credit losses.

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original special commission rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred.

A financial asset that has been renegotiated due to deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, financial assets that are overdue for 720 days or more are considered impaired, unless evidence to the contrary exists.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

Financial assets measured at amortised cost

- as a deduction from the gross carrying amount of the assets;

Financial instrument includes both on statement of financial position (SOF) and off SOFP component

- where the Company cannot identify the ECL on the off SOFP commitment component (in respect of sold finance lease receivables) separately from those on the on SOFP component, the Company presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the on SOFP component.

Write-off

Lease, murabaha receivables and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

Collateral valuation

To mitigate its credit risks on financial assets, the Company seeks to use collateral, where possible. The collateral comes in various forms, such as bank guarantees, personal guarantees and other non-financial assets. The Company's accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same as it was under IAS 39. Collateral, unless repossessed, is not recorded on the Company's statement of financial position. The fair value of collateral is considered for the calculation of ECLs. The value of the collateral is determined at inception and subsequently as and when considered necessary.

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Collateral repossessed

The Company's accounting policy under IFRS 9 remains the same as it was under IAS 39. The Company's policy is to determine whether a repossessed asset can be sold or relent. Assets for which selling is determined to be a better option are sold in line with the Company's policy and any difference in the amount lent and assets sold is recorded in the statement of profit or loss.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. 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 the Company.

Fair value measurement (continued)

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Dividend distributions

The Company recognizes a liability to make cash dividends distribution to shareholders when the dividends are authorised and no longer at the discretion of the Company. The corresponding amount is directly recognized in statement of changes in equity.

Expenses

General and administrative expenses include direct and indirect costs not specifically part of the operating activities of the Company. They include salaries and other employee benefits, rent, consultancy charges, communication and others.

Employees' terminal benefits - Net employee defined benefit liabilities

Short-term employee benefits

Short-term employee benefits are expensed as the related services are provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) ACCOUNTING POLICIES (continued)

Employees' terminal benefits - Net employee defined benefit liabilities (continued)

Post-employment benefits

The Company's obligation under employee end-of-service benefit is accounted for as an unfunded defined benefit plan and is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods and discounting that amount. The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. Re-measurement of the net defined benefit liability, which comprise actuarial gains and losses are recognised immediately in OCI. The Company determines the net interest expense on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability, taking into account any changes in the net defined benefit liability during the period as a result of benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in employee costs in the statement of profit or loss.

Zakat and income tax

The Company is subject to zakat in accordance with the regulations of the General Authority of Zakat and Tax ("GAZT"). Provision for zakat for the Company is charged to the statement of profit or loss. Zakat is not accounted for as income tax and as such no deferred tax is calculated relating to zakat.

Value added tax (VAT)

Expenses and assets are recognised net of the amount of VAT, except when the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

Transactions in foreign currencies

Transactions in foreign currencies are recorded in Saudi Riyals at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the statement of financial position date. All differences are taken to the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. Income and expenses are presented on a net basis only when permitted under International Financial Reporting Standards, or for gains and losses arising from a group of similar transactions.

Revenue recognition

The Company is involved in leasing and financing activities. The entity applies a five-step model to determine when to recognize revenue and at what amount.

- Step:1 Identify the contract with the customer
- Step:2 Identify the performance obligations in the contract
- Step:3 Determine the transaction price
- Step:4 Allocate the transaction price to the performance obligations in the contract
- Step:5 Recognize revenue when or as the entity satisfies a performance obligation

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Each specified distinct service promised to the customer in the contract is identified and evaluated whether the entity under the consideration obtains control of the service before it is transferred to the customer. Revenue is measured on the consideration specified in the contract with the customer and excludes amount collected on behalf of the third parties.

Revenue is recognized when obligations under the terms of a contract with the customer are satisfied; generally, this occurs with the transfer of control of the services. Revenue is measured at the amount of consideration the Company expects to receive in exchange for providing services. Sales, value add, and other taxes collected concurrent with revenue-producing activities are excluded from revenue.

Leasing

Gross investment in finance lease represents the gross lease payments receivable by the Company, and the net investment represents the present value of these lease payments discounted at profit rate implicit in the lease. The difference between the gross investment and the net investment is recognised as unearned finance income. Finance lease income is recognised over the period of the lease on a systematic basis, which results in a constant periodic rate of return on the net investment outstanding. Direct costs incurred to generate lease finance income are netted off from earned lease income.

Income from Musharaka and securitization and agency agreements

Income from Musharaka includes the Company's share of distributable profits and management fees and is recognized under the terms of the agreements on an accrual basis.

Income from securitization and agency arrangements represents gains or losses on de-recognition of financial assets including income on amortization of net servicing asset.

4 CASH AND BANK BALANCES

	2019 SR	2018 SR
Cash in hand	131,438	133,087
Bank balances	37,053,349	31,024,061
	<u>37,184,787</u>	<u>31,157,148</u>

5 ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES

	2019 SR	2018 SR
Advance payments, net (see below)	26,643,608	134,411,974
Prepaid expenses	6,397,649	4,018,867
Advances to employees	3,612,110	3,452,585
Other receivables	3,637,549	3,129,838
	<u>40,290,916</u>	<u>145,013,264</u>

Advance payments mainly represents advance payments made net of amounts payable to banks and musharaka partners under various musharaka, securitization and agency agreements.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

6 NET INVESTMENT IN FINANCE LEASES

	2019 SR	2018 SR
Gross investment in finance leases	1,795,551,745	1,785,669,429
Less: unearned finance income (see below)	(144,370,148)	(158,036,831)
Net investment in finance leases (before credit loss on finance leases)	1,651,181,597	1,627,632,598
Less: credit loss on finance leases (see note 6.1)	(303,201,852)	(336,881,269)
Net investment in finance leases	1,347,979,745	1,290,751,329

Unearned finance income as at 31 December 2019 includes suspended income amounting to SR 2.4 million (2018: SR Nil).

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

6 NET INVESTMENT IN FINANCE LEASES (continued)

The contractual maturity of the gross investment in finance lease and net investment in finance leases is as follows:

		<i>Gross Investment SR</i>	<i>Unearned finance income SR</i>	<i>Net investment (before provision for lease losses) SR</i>	<i>Provision for lease losses SR</i>	<i>Net investment SR</i>
2019	Years					
Current portion	2020	1,272,932,426	(94,737,562)	1,178,194,864	(213,537,596)	964,657,268
Non-current portion	2021	342,688,306	(36,815,988)	305,872,318	(58,725,090)	247,147,228
	2022	144,245,774	(10,093,452)	134,152,322	(24,951,407)	109,200,915
	2023	25,598,280	(2,264,154)	23,334,126	(4,218,005)	19,116,121
	2024	10,086,959	(458,992)	9,627,967	(1,769,754)	7,858,213
Total non-current portion		522,619,319	(49,632,586)	472,986,733	(89,664,256)	383,322,477
31 December 2019		1,795,551,745	(144,370,148)	1,651,181,597	(303,201,852)	1,347,979,745
		<i>Gross investment SR</i>	<i>Unearned finance income SR</i>	<i>Net investment (before provision for lease losses) SR</i>	<i>Provision for lease losses SR</i>	<i>Net investment SR</i>
2018	Years					
Current portion	2019	1,165,833,719	(90,431,785)	1,075,401,934	(219,183,454)	856,218,480
Non-current portion	2020	382,439,758	(44,364,012)	338,075,746	(72,619,765)	265,455,981
	2021	161,224,072	(15,474,019)	145,750,053	(30,614,114)	115,135,939
	2022	47,385,709	(5,322,355)	42,063,354	(8,997,859)	33,065,495
	2023	28,786,171	(2,444,660)	26,341,511	(5,466,077)	20,875,434
Total non-current portion		619,835,710	(67,605,046)	552,230,664	(117,697,815)	434,532,849
31 December 2018		1,785,669,429	(158,036,831)	1,627,632,598	(336,881,269)	1,290,751,329

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

6 NET INVESTMENT IN FINANCE LEASES (continued)

6.1 The movement in provision for lease losses is given below:

	2019 SR	2018 SR
At the beginning of the year	336,881,269	259,847,965
Provided during the year	29,192,674	34,343,358
Transfers (see 6.9 below)	10,483,511	56,178,299
Written-off during the year	(73,355,602)	(13,488,353)
At the end of the year	<u>303,201,852</u>	<u>336,881,269</u>

6.2 As at 31 December 2019, 17.7% of the gross investment in finance leases are with the top five customers (2018: 17.2%).

6.3 The total value of the sold investments in finance lease receivables during the year has been netted off against amounts received from the banks under the securitization and agency agreements to buy the finance lease receivables from the Company. Due to the partial recourse available to the banks, the Company recognizes a liability against margin deposits maintained with the banks.

The Company is appointed by the banks to service the lease receivables purchased by them, and the corresponding net servicing liability is disclosed on the statement of financial position.

6.4 The Company has entered into Musharaka agreements with certain investors to finance its leasing business under syndication arrangements. In accordance with the provisions of these agreements, syndicate investors participate in underlying leasing transactions and share the income generated from these syndicate leases on an agreed sharing basis. According to the syndication arrangement, the Company is responsible for the management and record keeping of the syndicate businesses. Accordingly, all the leasing documents, including collaterals, are signed by the customers in the name of the Company.

Total outstanding balance of such agreements as at 31 December 2019 amounted to SR 580.96 million (2018: SR 600.83 million). The Company recorded these transactions as net investment in finance leases up to the extent of its share in the Musharaka arrangement. As at 31 December 2019, the investments in Musharaka, amounted to SR 67.41 million (2018: SR 66.5 million), which represents the Company's maximum exposure in respect of these agreements.

The amount recognized as investment in Musharaka is stated at cost, which represents the balance of the Company's share in the Musharaka funding. The Company's share in the Musharaka income for the year amounted to SR 12.95 million (2018: SR 10 million). The income from such Musharaka is recognized on an accrual basis and is included in the earned lease income (see note 21).

6.5 Gross investment in finance leases include an amount of SR 6.34 million (2018: SR 21.6 million) due from related parties (see note 18).

6.6 The Company in ordinary course of its business, holds collateral in respect of the finance lease receivables (being the title of assets leased out) in order to mitigate the credit risk associated with them. These collaterals are not readily convertible into cash and are intended to be repossessed and disposed of in case the customer defaults.

6.7 As at 31 December 2019, the outstanding net finance lease receivables were SR 1,651 million (2018: SR 1,628 million) and the provision for lease losses was SR 303 million (2018: SR 337 million). Moreover, the past due finance lease receivables as at 31 December 2019 were SR 583.86 million (2018: SR 598 million). Out of these past due finance lease receivables, SR 153.28 million (2018: SR 207 million) were past due for a period of 6 months or less, SR 91.01 million (2018: SR 125 million) were past due for a period of more than six months but less than twelve months and SR 339.57 million (2018: SR 266 million) were past due more than one year.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

6 NET INVESTMENT IN FINANCE LEASES (continued)

- 6.8 During the year ended 31 December 2019 the Company did not buy back any securitised finance lease receivables. However, during the year ended 31 December 2018, the Company bought back certain securitised finance lease receivables amounting to SR 67.4 million.
- 6.9 During the year ended 31 December 2019, SR 10.48 million (2018: SR 13.6 million) was transferred from provision against expected defaults in respect of sold finance lease receivables. During the year ended 31 December 2018, following IFRS 9 requirements and SAMA's direction, the Company decided to forego the suspension of income against the delinquent lease receivables and accordingly utilized the accumulated balance of suspended income amounting to SR 42.6 million.

7 MURABAHA FINANCING RECEIVABLES

The Company follows general approach to assess expected credit losses against the murabaha finance receivables.

	2019 SR	2018 SR
Murabaha financing receivables	264,504,303	226,131,687
Less: unearned finance income	(26,456,126)	(16,441,466)
	238,048,177	209,690,221
Less: provision for murabaha impairment losses for the year (note 7.1)	(10,666,641)	(2,735,977)
Murabaha financing receivables	227,381,536	206,954,244

7.1 The movement in credit loss on murabaha financing receivables is given below:

	2019 SR	2018 SR
At the beginning of the year	2,735,977	416,308
Provided during the year	7,930,664	2,319,669
At the end of the year	10,666,641	2,735,977

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

8 MARGIN DEPOSITS

	2019 SR	2018 SR
Margin deposits with banks	24,894,119	24,894,119
Less: provision against expected defaults in respect of sold finance lease receivables (see note 6.3)	(10,638,942)	(21,122,453)
Provision in respect of fair value of margin deposits	(1,018,243)	(2,101,806)
	<u>13,236,934</u>	<u>1,669,860</u>

The Company has placed these funds in restricted bank accounts against receivables sold to the banks as required under certain securitization and agency agreements. This amount represents the maximum liability (against defaulted receivables, if any) of the Company according to the relevant securitization and agency agreements (see note 6).

9 NET SERVICING LIABILITY FOR SOLD FINANCE LEASE RECEIVABLES

Assumptions and their sensitivity involved in the calculation of net servicing assets/ liability

Under the securitization and agency agreements, the Company has been appointed by the banks to service the purchased receivables. Where the Company is appointed to service the derecognized financial assets for a fee, the Company initially recognises 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.

Discount rates

Discount rate represents the current market assessment of the risks specific to the Company, taking into consideration the expectation of investor's return and the individual risks of the underlying assets. Such discount rates are adjusted for defaults and prepayments rates based on publicly available market data.

Servicing costs

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. Also, the calculation of discount rate and servicing cost is sensitive to expected default rate and prepayment risk, which are expected to be minimal.

Variations in one or a combination of these assumptions could materially affect the estimated values of net servicing assets. Evaluation of impairment is performed on a quarterly basis taking into consideration historical trends, past experience and forecasts of defaults and prepayments.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

10(a) PROPERTY AND EQUIPMENT

	<i>Office equipment</i>	<i>Furniture and fixtures</i>	<i>Leased vehicles</i>	<i>Motor vehicles</i>	<i>Capital work in progress</i>	<i>Total 2019</i>	<i>Total 2018</i>
	<i>Amounts in SR</i>						
Cost:							
At the beginning of the year	8,242,632	6,138,413	1,002,710	724,847	83,416	16,192,018	15,898,312
Additions	440,127	54,787	-	-	874,368	1,369,282	1,327,756
Disposals	(68,260)	(38,286)	-	(342,390)	(70,243)	(519,179)	(178,559)
Transfers (see note 11)	20,515	318,449	-	214,837	(669,301)	(115,500)	(855,491)
At the end of the year	<u>8,635,014</u>	<u>6,473,363</u>	<u>1,002,710</u>	<u>597,294</u>	<u>218,240</u>	<u>16,926,621</u>	<u>16,192,018</u>
Depreciation:							
At the beginning of the year	5,346,673	4,911,635	1,002,710	511,870	-	11,772,888	10,249,796
Charge for the year	1,052,741	478,342	-	56,428	-	1,587,511	1,696,477
Relating to disposals	(64,690)	(38,286)	-	(181,057)	-	(284,033)	(173,385)
At the end of the year	<u>6,334,724</u>	<u>5,351,691</u>	<u>1,002,710</u>	<u>387,241</u>	<u>-</u>	<u>13,076,366</u>	<u>11,772,888</u>
Net book amounts:							
At 31 December 2019	<u>2,300,290</u>	<u>1,121,672</u>	<u>-</u>	<u>210,053</u>	<u>218,240</u>	<u>3,850,255</u>	
At 31 December 2018	<u>2,895,959</u>	<u>1,226,778</u>	<u>-</u>	<u>212,977</u>	<u>83,416</u>		<u>4,419,130</u>

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

10(b) RIGHT OF USE ASSETS

The Company has obtained premises / properties on lease from different lessors, with the right to use such properties against consideration as per mutual agreement. Until the year 2018, the right to use such properties was classified as “advances, prepayments and other receivables” (note 5) and related expense was charged under “general and administrative expenses” (note 22). However, effective from 1 January 2019, the cost and its accumulated amortization was transferred to “right to use assets” in accordance with IFRS 16.

Until 2018, liability in respect of such leased properties was classified under “Trade, accrued and other payables”. However, effective from 1 January 2019, the Company has recorded such liability as “lease liability in respect of right of use assets”. Refer note 3(b) for impact on adoption of IFRS 16 in respect of right of use assets and lease liabilities.

Movement during the year related to right of use assets and lease liabilities is as follows:

	statement of financial position	
	<i>Right-of-use asset</i>	<i>Lease liabilities</i>
	SR	SR
As at 1 January 2019 (note 3b)	3,920,594	2,791,121
Amortization of right of use assets	(1,730,636)	-
Interest expense	-	107,739
Payments	-	(1,773,000)
As at 31 December 2019	2,189,958	1,125,860

11 INTANGIBLE ASSETS

	2019 SR	2018 SR
Cost:		
At the beginning of the year (see note below)	9,434,189	8,437,358
Additions during the year	1,412,584	141,340
Transferred from capital work in progress (see note 10(a))	115,500	855,491
At the end of the year	10,962,273	9,434,189
Amortization:		
At the beginning of the year	(7,098,119)	(5,522,813)
Amortized during the year (see note below)	(993,227)	(1,575,306)
At the end of the year	(8,091,346)	(7,098,119)
Net carrying value	2,870,927	2,336,070

Intangible assets represent costs incurred with respect to the acquisition of software license fee. Intangible assets are being amortized over a useful life of 5 years.

12 EQUITY INVESTMENT AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

On 14 December 2017, the Company subscribed to 2.38% shareholding in Saudi Company for Registration of Financial Leasing Contracts (“Registration Company”), registered in the Kingdom of Saudi Arabia. The Registration Company has been formed for registration of contracts relating to financial leases, amendments, registration and transfer of title deeds of the assets under the finance leases. Other finance and leasing Companies, registered in the Kingdom of Saudi Arabia, also have a pro-rata ownership interest in the Registration Company.

This investment is classified under level 3 of the fair value hierarchy.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

13 SHARE CAPITAL

The share capital of the Company is divided into 50,000,000 shares (2018: 50,000,000) of SR 10 each.

13.1 On 28 January 2019, Riyadh Bank, Zahid Group Holding Company Limited and Al-Yemni Motors Company Limited agreed to purchase shares from non-Saudi shareholders as per following details:

Name of shareholders	Number of shares offered for sale	Percentage of shares offered for sale
MC Netherlands Leasing and Finance B.V	10,000,000	20%
Mitsubishi UFJ Lease & Finance Company Limited	2,500,000	5%

New shareholding after the transfer of shares

Name of shareholders	% of shares before transfer	Shares before transfer	Pro-rata Purchase	Shares purchased further	New % of shareholding	New no. of shares
Riyadh Bank	35%	17,500,000	13.46%	6,730,769	48.46%	24,230,769
Zahid Group Holding Company Limited	25%	12,500,000	9.62%	4,807,692	34.62%	17,307,692
Al – Yemni Motors Company Limited	5%	2,500,000	1.92%	961,539	6.92%	3,461,539
Al – Wasilah Rent A Car Company Limited (note 13.2)	5%	2,500,000	-	-	5%	2,500,000
Khaled Ahmed Al – Juffali Company	5%	2,500,000	-	-	5%	2,500,000
Total						50,000,000

Legal formalities for the transfer of shares are completed in all respects and share register is updated by the Company on 31 March 2019. The Company is now fully owned by Saudi Shareholders.

13.2 On 29 May 2019, one of the shareholders, Al – Wasilah Rent A Car Company Limited agreed to sell its entire shareholding (2,500,000 shares) to Hussein Alireza Sons Company Limited. Legal formalities for the transfer of shares to the new shareholder are still in progress.

14 STATUTORY RESERVE

As required by the regulations for Companies and Company's By-laws, 10% of the profit for the year, has been transferred to the statutory reserve. The Company may resolve to discontinue such transfers when the reserve totals 30% of the share capital. The reserve, up to 30% of the share capital, is not available for distribution.

15 DIVIDEND

The shareholders in their general assembly meeting held on 26 June 2019 (2018: 27 May 2018), approved the distribution of gross dividend of SR 0.48 per share (2018: SR 0.61 per share) totaling SR 24.04 million (2018: SR 30.44 million). No zakat and income tax adjustment has been made against the dividend approved for distribution on 26 June 2019 (2018: adjustments for zakat amounting to SR 5.49 million and income tax amounting to SR 3.53 million were made against dividend approved for distribution on 27 May 2018).

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

16 EMPLOYEES' DEFINED BENEFIT LIABILITIES

	2019	2018
	SR	SR
Present value of unfunded defined benefit liabilities	15,527,129	13,982,453

The major financial assumptions used to calculate the defined unfunded benefits plan (end-of-service benefits) liabilities are as follows:

Principal actuarial assumptions

	2019	2018
Discount rate	3.55%	4.50%
General salary increases	3.20%	5.00%

a) The movements in defined benefit liabilities recognized in the statement of financial position are as follows:

	2019	2018
	SR	SR
Net liability at the beginning of the year	13,982,453	14,564,858
Commission cost on plan liabilities	522,387	473,180
Current service cost	1,653,800	1,225,333
Benefits paid during the year	(595,525)	(2,280,918)
Actuarial gains on employees' defined benefit liabilities recognized during the year	(35,986)	-
Net liability at the end of the year	15,527,129	13,982,453

b) The amounts recognised in the statement of profit or loss in respect of defined unfunded benefits plan are as follows:

	2019	2018
	SR	SR
Employer's part of current service cost	1,653,800	1,225,333
Commission cost on net defined benefit liability	522,387	473,180
	2,176,187	1,698,513

Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit liabilities by the amounts shown below.

End of service benefits	31 December 2019		31 December 2018	
	Increase	Decrease	Increase	Decrease
Discount rate (1% movement)	1,366,085	1,646,670	1,425,304	1,725,576
Future salary growth (1% movement)	1,635,395	1,382,510	1,698,738	1,431,532

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

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At 31 December 2019

17 TRADE, ACCRUED AND OTHER PAYABLES

	2019	2018
	SR	SR
Advance from customers	17,723,597	2,377,584
Accrued expenses	15,446,938	29,151,723
Trade payables	7,713,027	25,502,757
Reimbursable to Shareholders	-	56,576,664
Payable to a bank in respect of sold finance lease receivables	-	7,913,503
	40,883,562	121,522,231

18 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent major shareholders, directors and key management personnel of the Company, and entities controlled or significantly influenced by such parties (other related parties).

A summary of significant balances with related parties included in the statement of financial position are as follows:

Related party	Particulars	2019	2018
		SR	SR
Shareholder	Cash at bank	3,644,623	415,429
Shareholder	Accrued expenses and other liabilities	(242,852)	(1,604,274)
Shareholder	Investments in Musharaka	3,413,286	2,368,437
Shareholder	Short term loans	(85,000,000)	(155,000,000)
Others	Investments in Musharaka	474,464	948,920
Others	Gross investment in finance leases	6,343,313	21,592,656
Others	Accounts payable	(1,100,931)	(5,562,309)
Others	Murabaha financing	-	3,150,000

The following are the details of the significant transactions with related parties during the year:

Related party	Nature of transaction	2019	2018
		SR	SR
Shareholder	Purchases for leasing business	8,640,400	1,582,385
Shareholder	Finance costs	5,232,051	9,129,528
Shareholder	Term loans repaid, net	(70,000,000)	(245,000,000)
Shareholder	Musharaka repayments	9,022,779	8,198,672
Others	Purchases for leasing business	504,836,710	301,167,073
Others	Leasing transactions	266,496	-
Others	Payment for rental and support services	1,712,408	1,868,601

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18 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

The transactions with related parties are approved by the Company's management. Balances arising from above transactions are as follows:

Due to related parties

	2019 SR	2018 SR
<i>Others:</i>		
Saudi Company of Site Technology Limited	904,347	664,321
Zahid Tractor and Heavy Machinery Company Limited	190,336	4,644,728
Property and asset management company (PAMCO)	6,248	-
Altaaqa Alternative Solutions company Limited	-	215,250
Juffali Printing Systems Company	-	38,010
	<u>1,100,931</u>	<u>5,562,309</u>

Due from related parties (included in net investment in finance leases)

	2019 SR	2018 SR
Global Gypsum Company Limited	4,871,136	17,751,855
Khaled Ahmed Al Juffali Industrial Company	1,072,910	1,742,490
Wared Express Company Limited	-	1,142,006
Wared Transport Company	40,888	598,272
Khaled Ahmed Al Juffali Holding Company	40,272	236,734
Khaled Ahmed Juffali Construction Company	62,715	121,299
Nihad Abdullah Arab & Sons Limited Company	255,392	-
	<u>6,343,313</u>	<u>21,592,656</u>

Remuneration of key management personnel of the Company

Remuneration of the key management executives for the year ended 31 December 2019 was SR 5.6 million (2018: SR 5.1 million). In addition, the long-term benefits amounted to SR 0.54 million (2018: SR 0.48 million).

The remuneration paid to the secretary of the Board of Directors during the year ended 31 December 2019 was SR 0.55 million (2018: SR 0.5 million).

19 TERM LOANS

	2019 SR	2018 SR
Short term loans (see note 19.1)	669,714,286	612,600,000
Long term loans (see note 19.2)	56,146,076	-
	<u>725,860,362</u>	<u>612,600,000</u>

19.1 These represent short term loans drawn from various local banks against credit lines of SR 2,657 million (2018: SR 2,707 million). These facilities carry fixed special commission rate and are repayable within 8.6 months (2018: 11 months) from the statement of financial position date. These facilities are collateralized against promissory notes issued by the Company.

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19 TERM LOANS (continued)

19.2 This represent long term concessional loan received under the agreement concluded between the General Commission for Small and Medium Enterprises (“SME”) and the Social Development Bank (“SDB”) in respect of the indirect loaning initiative towards activating the role of the loaning funds and the financing companies and motivating them to have a bigger and more effective role in the financing of small and medium enterprises within the private sector reinforcement program (“Monsha’at Program”). Through Monsha’at Program, the Company finance SMEs at reduced rate and the benefit is transferred to the respective customers. This long-term loan is repayable in fixed monthly instalments with last instalment due in July 2022. Current portion of the long term loan amounts to SR 22.2 million.

19.3 Government grant amounting to SR 2.6 million have been received under the agreement concluded between the General Commission for Small and Medium Enterprises and the Social Development Bank (“the Bank” or “SDB”) in respect of the indirect loaning initiative towards activating the role of the loaning funds and the financing companies and motivating them to have a bigger and more effective role in the financing of small and medium enterprises within the private sector reinforcement program. There are no unfulfilled conditions or contingencies attached to these grants. The unutilized balance of government grant as of 31 December 2019 amounts to SR 0.9 million.

20 ZAKAT AND INCOME TAX

The movement in zakat provision and income tax provision for the year was as follows:

	2019	2018
	SR	SR
At the beginning of the year	47,723,840	88,739,607
Provided during the year	6,626,618	7,250,129
Prior year adjustments	(3,100,787)	17,339,578
Payments during the year	(5,489,988)	(9,028,810)
Reimbursed to shareholders	(39,133,065)	(56,576,664)
At the end of the year	6,626,618	47,723,840

During the year ended 31 December 2019, the Company reached a settlement agreement with the General Authority for Zakat & Income Tax (“GAZT”), to settle the Zakat Liability for previous years (i.e. 2009 to 2017) and accordingly assessments have been finalized for the respective years.

The Company, upon settlement of Zakat liability with the GAZT for previous years (i.e. 2009 to 2017), reimbursed to shareholders amounting to SR 95.71 million. The reimbursement relates to additional zakat provision of prior periods which were under dispute with the GAZT and have now been settled.

The change in the accounting treatment of zakat and income tax (as explained in note 3) has the following impacts on the line items of statements of profit and loss, statement of financial position and changes in shareholders' equity:

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At 31 December 2019

20 ZAKAT AND INCOME TAX (continued)

As at and for the year ended 31 December 2018:

Financial statement impacted	Account	Before the restatement for the year ended 31 December 2018 SR	Effect of restatement SR	As restated as at and for the year ended 31 December 2018 SR
Statement of changes in Equity	Provision for zakat and income tax (retained earnings)	7,250,129	(7,250,129)	-
Statement of profit or loss	Zakat and income tax expense	-	7,250,129	7,250,129
Statement of profit or loss	Net profit for the year after zakat and income tax	48,070,490	(7,250,129)	40,820,361

Status of assessments

The Company has finalized its zakat and tax assessments proceedings up to the year ended 31 December 2017 through settlement agreements. Accordingly, GAZT released the bank guarantees (SR 31.5 M) submitted earlier against pending cases for the years from 2009 to 2012.

The Company submitted Zakat and tax return for the year ended 31 December 2018 in accordance with the settlement agreement. The company has secured unrestricted Zakat and Tax Certificate valid until 30 April 2020.

21 REVENUES

	2019 SR	2018 SR
Earned lease income (see note 6 and note 'a' below)	129,033,425	159,309,071
Net income from finance lease receivables sold to the banks (see note 25)	4,740,475	13,047,936
Income from murabaha financing	22,018,752	8,258,503
	<u>155,792,652</u>	<u>180,615,510</u>

a. Earned lease income is net of the insurance expense of SR 14.02 million (2018: SR 18.9 million).

b. Revenue is generated from markets within Kingdom of Saudi Arabia.

22 GENERAL AND ADMINISTRATIVE EXPENSES

	2019 SR	2018 SR
Salaries and other employee's benefits	44,057,461	42,516,362
Rent (see note 26)	1,421,666	3,483,615
Consultancy charges	3,569,331	2,494,250
Communication	1,411,274	1,474,200
Others	6,516,776	6,736,485
	<u>56,976,508</u>	<u>56,704,912</u>

23 FINANCE COSTS

The Company mainly incurred finance costs on term loans during the year amounting to SR 26.09 million (2018: SR 31.55 million).

24 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Risk is inherent in the Company's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's achieving profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities. The Company is exposed to market risk, credit risk, and liquidity risk.

24.1 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices. Market risk comprises three types of risk: commission rate risk, currency risk and equity price risk.

Commission rate risk

Commission rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market commission rates. As at 31 December 2019 and 31 December 2018, the Company is not exposed to significant commission rate risk as its special commission bearing assets and liabilities carry fixed rates.

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company is subject to fluctuations in foreign exchange rates in the normal course of its business. The Company did not undertake significant transactions in currencies other than Saudi Riyals during the year. Accordingly, the Company is not exposed to any significant currency risk.

Equity price risk

The Company is not exposed to other price risk such as equity risk and commodity risk as the Company is neither involved in investment in trading securities nor the commodities.

24.2 Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk on cash and bank balances, net investment in finance lease, murabaha financing receivables, due from related parties, net deferred consideration receivable, employees' receivables and other receivables. The Company has established procedures to manage credit exposure including, credit approvals, credit limits, collateral and guarantee requirements. These procedures are based on the Company's internal guidelines.

Concentration of credit risk indicates the relative sensitivity of the Company's performance to developments affecting a particular segment of customers.

The Company manages concentration of credit risk exposure through diversification of activities and sale of future net investment in finance lease receivables to different banks through purchase and agency agreements. However, the Company mitigates its credit risk through evaluation of credit worthiness internally and by obtaining promissory notes and by retaining the title of the asset leased out. An allowance for doubtful finance lease and murabaha financing receivable is maintained at a level which, in the judgment of management, is adequate to provide for impairment losses on delinquent receivables.

All finance leases are secured mainly through promissory notes and by retaining the title of the assets leased out and generate a fixed rate of commission for each contract. The title of the assets under finance lease agreements is held in the name of the Company as collateral to be repossessed, in case of default by the customer. For credit risk arising from financial assets of the Company, including sold lease receivables – under securitization and agency arrangements (to the extent of margin deposits or guarantee amount – note 6).

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Company's maximum exposure to credit risk without taking account of the value of any collateral obtained.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

24 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

24.3 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial liabilities. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. The Company manages its liquidity risk by ensuring that adequate bank facilities are available to meet any commitments, as they arise.

The table below summarises the maturities of the Company's undiscounted financial liabilities at 31 December 2019, based on contractual payment dates:

2019	<i>Less than 3 months SR</i>	<i>3 to 12 months SR</i>	<i>More than 12 months SR</i>	<i>Total SR</i>
Trade, accrued and other payables	40,883,562	-	-	40,883,562
Due to related parties	1,100,931	-	-	1,100,931
Term loans	180,542,839	511,342,517	33,975,006	725,860,362
Employees' defined benefit liabilities	-	-	15,527,129	15,527,129
Total	222,527,332	511,342,517	49,502,135	783,371,984

24.3 Liquidity risk (continued)

2018	<i>Less than 3 months SR</i>	<i>3 to 12 months SR</i>	<i>More than 12 months SR</i>	<i>Total SR</i>
Trade, accrued and other payables	121,522,231	-	-	121,522,231
Due to related parties	5,562,309	-	-	5,562,309
Term loans	225,000,000	387,600,000	-	612,600,000
Employees' defined benefit liabilities	-	-	13,982,453	13,982,453
Total	352,084,540	387,600,000	13,982,453	753,666,993

24.4 Capital Management

The primary objectives of the Company's capital management are to safeguard its ability to continue as a going concern, maintain healthy capital ratios in order to support its business and to provide an optimal return to its shareholders.

The Company manages its capital structure and makes adjustments to it in light of the changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 31 December 2018.

The Company monitors aggregate amount of financing offered by the Company on the basis of the regulatory requirements of Company's law and SAMA. SAMA 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	1.78 times	1.70 times
(Net investment in finance lease plus Murabaha financing receivables divided by total equity)		

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

25 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 the banks.

The Company continues to manage these off statement of financial position finance lease receivables as a servicer in accordance with the securitization and agency agreements entered into with the banks (refer note 6). The Company is continuing to manage these sold receivables for an agreed fee which is disclosed as revenue (note 21). These receivables are secured by promissory notes from the customers.

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

	2019 SR	2018 SR
Balance of outstanding finance lease receivables relating to securitization	72,481,215	184,809,892

The maturity analysis of above outstanding finance lease receivables is as follows:

31 December 2019	Up to 1 year SR	More than 1 year SR
Securitization agreements	65,742,232	6,738,983
31 December 2018	Up to 1 year SR	More than 1 year SR
Securitization agreements	129,856,357	54,953,535
	2019 SR	2018 SR
Gain recognized during the year against off-statement of financial position finance lease receivables (at the date of transfer / sale of finance lease receivables)	-	966,276

26 PREMISES RENT UNDER OPERATING LEASE ARRANGEMENTS

	2019 SR	2018 SR
Payments under operating leases recognized as an expense during the year (see note 22)	1,421,666	3,483,615

Premises rent under operating lease arrangements represent rentals payable by the Company for certain office properties.

27 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial assets consist of cash and bank balances, net investment in finance leases, margin deposits, net servicing liability for sold finance lease receivables and other receivables, its financial liabilities consist of trade payables, short term loans, due to related parties and other liabilities.

The fair values of financial instruments are not materially different from their carrying values except for the net investment in finance leases.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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27 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The Company's management determines the policies and procedures for both recurring fair value measurement and for non-recurring measurement.

28 CONTINGENCIES AND COMMITMENTS

The Company has the following contingent liabilities and commitments:

	2019	2018
	SR	SR
Letters of guarantee issued in favor of GAZT	-	31,532,563

There were no outstanding letters of credit or commitments at 31 December 2019 and 31 December 2018.

29 RECLASSIFICATION OF PRIOR PERIOD FIGURES

Certain prior period figures have been reclassified to conform to current period presentation, which are not material in nature.

30 BOARD OF DIRECTORS' APPROVAL

These financial statements were approved by the Board of Directors on 29 Jumada II 1441H (corresponding to 23 February 2020).