SAUDI FRANSI FOR FINANCE LEASING
(A Closed Joint Stock Company)
Financial Statements
For the year ended 31 December 2019
together with the
Independent auditors' report

KPMG

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Licence No. 46/11/323 issued 11/3/1992

Independent auditor's report

To the shareholders' of Saudi Fransi For Finance Leasing

Opinion

We have audited the financial statements of Saudi Fransi For Finance Leasing ("the Company"), which comprise the statement of financial position as at 31 December 2019, the statements of income, comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes to the financial statements, comprising significant accounting policies and other explanatory information.

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 the International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing ("ISA") 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 the professional code of conduct and ethics that are 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 that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the SOCPA, the Regulations for Companies, and the Company's By-laws and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, the Board of Directors, 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 ISA 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Independent auditor's report

To the shareholders of Saudi Fransi For Finance Leasing (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

As part of an audit in accordance with ISA that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, then 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 of Saudi Fransi For Finance Leasing ("the Company").

For KPMG Al Fozan & Partners
Certified Public Accountants

Ebrahim Oboud Baeshen
License No.: 382

8 Rajab 1441H
Corresponding to: 3 March 2020

KPMG
C.R. 46
Certified Public Accountants
KPMG Al Fozan & Partners

SAUDI FRANSI FOR FINANCE LEASING
(A Closed Joint Stock Company)
STATEMENT OF FINANCIAL POSITION
As at 31 December 2019
(Saudi Arabian Riyals)

	Note	31 December 2019	31 December 2018
ASSETS			
Cash and cash equivalents	6	**19,831,418**	126,412,674
Net investment in finance leases	7	**2,426,664,890**	2,317,604,097
Advances, prepayments and other receivables	8	**79,935,795**	55,214,977
Investment at FVOCI	9	**892,850**	892,850
Positive fair value of derivatives	10	**1,917,631**	5,192,208
Property and equipment	12	**579,803**	398,796
Intangible assets	11	**211,329**	325,376
Due from a related party	13.c	**--**	26,111
Deferred tax asset	14	**2,909,194**	--
Total assets		**2,532,942,910**	2,506,067,089
SHAREHOLDERS' EQUITY AND LIABILITIES			
Liabilities			
Long-term loan	15	**1,627,086,962**	1,703,867,529
Accounts payable	16	**45,631,814**	27,482,282
Advance from customers		**65,100,405**	51,292,532
Due to related parties	13.b	**5,842,206**	12,429,495
Negative fair value of derivatives	10	**21,742,067**	5,465,092
Accrued expenses and other liabilities	17	**11,657,486**	9,701,580
Employees' end of service benefits	18	**5,619,117**	4,485,022
Provision for zakat and income tax	19	**11,403,367**	13,244,777
Total liabilities		**1,794,083,424**	1,827,968,309
Shareholders' equity			
Share capital	20	**500,000,000**	500,000,000
Statutory reserve		**30,241,705**	22,243,930
Cash flow hedge reserve	10	**(19,824,436)**	(272,883)
Retained earnings		**228,442,217**	156,127,733
Total shareholders' equity		**738,859,486**	678,098,780
Total shareholders' equity and liabilities		**2,532,942,910**	2,506,067,089

The accompanying notes (1) through (32) form an integral part of these financial statements.

SAUDI FRANSI FOR FINANCE LEASING
(A Closed Joint Stock Company)
STATEMENT OF INCOME
For the year ended 31 December 2019
(Saudi Arabian Riyals)

	Note	**2019**	2018 *Restated*
Income from operations			
Lease finance income		**139,685,252**	142,959,800
Fees income	*22*	**190,138,360**	168,762,885
		329,823,612	311,722,685
Operating expenses			
Fees expenses	*22*	**(144,370,357)**	(122,549,504)
Salaries and employee related expenses		**(35,137,518)**	(31,211,280)
Rent		**(397,320)**	(414,619)
Depreciation	*12*	**(142,876)**	(170,952)
Amortization	*11*	**(172,212)**	(197,949)
General and administration expenses	*23*	**(6,276,083)**	(2,171,184)
Financial charges		**(56,717,018)**	(60,192,299)
Allowance for expected credit losses, net	*7*	**(4,762,035)**	(18,492,990)
		(247,975,419)	(235,400,777)
Operating income		**81,848,193**	76,321,908
Other income		**5,381,767**	8,236,109
Net income for the year before zakat and income tax		**87,229,960**	84,558,017
Zakat and income tax	*19*	**(7,252,212)**	(16,944,387)
Net income for the year after zakat and income tax		**79,977,748**	67,613,630

The accompanying notes (1) through (32) form an integral part of these financial statements.

SAUDI FRANSI FOR FINANCE LEASING
(A Closed Joint Stock Company)
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2019
(Saudi Arabian Riyals)

	Note	**2019**	2018 *Restated*
Net income for the year after zakat and income tax		**79,977,748**	67,613,630
Other comprehensive income/(loss):			
Items that may be reclassified to statement of income in subsequent years:			
Cash flow hedges – net change in fair value	*10*	**(19,551,553)**	8,613,553
Items that may not be reclassified to statement of income in subsequent years:			
Actuarial gain on defined benefit plans	*18*	**334,511**	180,709
Total comprehensive income for the year		**60,760,706**	76,407,892

The accompanying notes (1) through (32) form an integral part of these financial statements.

SAUDI FRANSI FOR FINANCE LEASING
(A Closed Joint Stock Company)
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended 31 December 2019
(Saudi Arabian Riyals)

For the year ended 31 December 2019	**Share capital**	**Statutory reserve**	**Cash flow hedge reserve**	**Retained earnings**	**Total**
Balance as at 1 January 2019	**500,000,000**	**22,243,930**	**(272,883)**	**156,127,733**	**678,098,780**
Net income for the year	**--**	**--**	**--**	**79,977,748**	**79,977,748**
Transfer to statutory reserve *(note 21)*	**--**	**7,997,775**	**--**	**(7,997,775)**	**--**
Other comprehensive income	**--**	**--**	**(19,551,553)**	**334,511**	**(19,217,042)**
Balance as at 31 December 2019	**500,000,000**	**30,241,705**	**(19,824,436)**	**228,442,217**	**738,859,486**

For the year ended 31 December 2018 (Restated)	Share capital	Statutory reserve	Cash flow hedge reserve	Retained earnings	Total
Balance at 31 December 2017 – as previously reported (audited)	500,000,000	13,788,128	(8,886,436)	102,840,944	607,742,636
Impact of adopting of new standard at 1 January 2018	--	--	--	(6,051,748)	(6,051,748)
Balance as at 1 January 2018	500,000,000	13,788,128	(8,886,436)	96,789,196	601,690,888
Net income for the year	--	--	--	67,613,630	67,613,630
Transfer to statutory reserve *(note 21)*	--	8,455,802	--	(8,455,802)	--
Other comprehensive income	--	--	8,613,553	180,709	8,794,262
Balance as at 31 December 2018	500,000,000	22,243,930	(272,883)	156,127,733	678,098,780

The accompanying notes (1) through (32) form an integral part of these financial statements.

SAUDI FRANSI FOR FINANCE LEASING
(A Closed Joint Stock Company)
STATEMENT OF CASH FLOWS
For the year ended 31 December 2019
(Saudi Arabian Riyals)

	Note	**2019**	2018
Cash flows from operating activities			
Net income for the year before zakat and income tax		**87,229,960**	84,558,017
Adjustments to reconcile net income to net cash generated from / (used in) operating activities:			
Depreciation	*12*	**142,876**	170,952
Amortization	*11*	**172,212**	197,949
Charge for expected credit losses, net	*7*	**4,762,035**	18,492,990
Employees' end of service benefits		**1,388,420**	3,884,833
Financial charges	*15*	**56,717,018**	60,192,299
Operating income before changes in operating assets and liabilities		**150,412,521**	167,497,040
Net (increase) / decrease in operating assets			
Net investment in finance leases		**(113,822,828)**	166,855,682
Advances, prepayments and other receivables		**(24,720,818)**	(17,045,994)
Due from a related party		**26,111**	150,985
Net increase / (decrease) in operating liabilities			
Accounts payable		**18,149,531**	824,561
Due to related parties		**(6,587,289)**	(5,792,254)
Advance from customers		**13,807,873**	7,170,658
Accrued expenses and other liabilities		**1,955,906**	1,666,833
Net cash from operations		**39,221,007**	321,327,511
Zakat and income tax paid	*19*	**(12,002,816)**	(7,269,046)
Employees' end of service benefits, net	*18*	**80,186**	(92,948)
Net cash generated from operating activities		**27,298,377**	313,965,517
Cash flows from investing activities			
Purchase of intangibles	*11*	**(58,165)**	(189,375)
Purchase of property and equipment	*12*	**(323,883)**	(133,035)
Net cash used in investing activities		**(382,048)**	(322,410)
Cash flows from financing activities			
Draw down of long-term loan	*15*	**400,000,000**	350,000,000
Payments of long-term loan	*15*	**(475,000,000)**	(560,000,000)
Financial charges paid	*15*	**(58,497,585)**	(51,575,644)
Net cash used in financing activities		**(133,497,585)**	(261,575,644)
Net increase in cash and cash equivalents		**(106,581,256)**	52,067,463
Cash and cash equivalents at the beginning of the year		**126,412,674**	74,345,211
Cash and cash equivalents at the end of the year	*6*	**19,831,418**	126,412,674

The accompanying notes (1) through (32) form an integral part of these financial statements.

1. THE COMPANY AND NATURE OF OPERATIONS

Saudi Fransi for Finance Leasing ("the Company") is a Closed Joint Stock Company ("CJSC") established under the Regulations for Companies in the Kingdom of Saudi Arabia. The Company operates under Commercial Registration No. 1010320273 dated 25 Dhul Hijjah 1432H (corresponding to 21 November 2011).

As per the Saudi Arabian Monetary Authority ("SAMA") directive, the Company obtained a license no. 201511/ 38/أش to practice finance activities.

The Company's head office is located in Riyadh at the following address:

Saudi Fransi for Finance Leasing
Prince Abdulaziz Ibn Musaid Ibn Jalawi Road
P.O. Box 56006,
Riyadh 11554
Kingdom of Saudi Arabia

The objective of the Company is to provide lease financing for assets.

2. BASIS OF PREPARATION

a) *Statement of compliance*

The financial statements of the Company are prepared:

(a) in accordance with the International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA"); and

b) in compliance with the provisions of the Regulations for Companies in the Kingdom of Saudi Arabia and the by-laws of the Company.

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).

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

Accordingly, the Company changed its accounting treatment for zakat and income tax by retrospectively adjusting the impact in line with International Accounting Standard 8 Accounting Policies, Changes in Accounting Estimates and Errors and the effects of this change are disclosed in note 2 (d).

b) *Basis of measurement*

These financial statements have been prepared under the historical cost convention except for commission rate swaps and financial assets held at fair value through other comprehensive income – equity instrument, which are measured at fair value.

2. BASIS OF PREPARATION (CONTINUED)

c) Functional and presentation currency

Items included in these financial statements are measured using the currency of the primary economic environment in which the Company operates. These financial statements are presented in Saudi Arabian Riyals ("SAR") which is the Company's functional and presentation currency. All financial information presented in SAR has been rounded to the nearest SAR.

d) Change in the accounting zakat and income tax:

As mentioned above, the basis of preparation has been changed 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 and the effects of the above change are disclosed in this note. The change has resulted in reduction of reported income of the Company for the year ended 31 December 2018 by SR 16,944,387. The change has had no impact on the statement of cash flows for the year ended 31 December 2018.

Below are the accounting policies on zakat and income tax:

Income tax:

The income tax expense or credit for the year is the tax payable on the current year 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.

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. 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.

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.

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. The approach that better predicts the resolution of the uncertainty needs to be followed.

2. BASIS OF PREPARATION (CONTINUED)

Deferred tax:

Deferred income tax is provided using the liability method on temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for the taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amounts of assets and liabilities using the tax rates enacted or substantively enacted at the reporting date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available and the credits can be utilized. Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefits will be realized.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised.

Zakat:

The Company is subject to Zakat in accordance with the regulations of the General Authority of Zakat and Income Tax (“GAZT”). Zakat expense is charged to the statement of income. Zakat is not accounted for as income tax and as such no deferred tax is calculated relating to zakat.

Effect of change in accounting of zakat and income tax:

The change in the accounting treatment for zakat and income tax as explained above has the following impact on the line items of the statements of income, statement of financial position and changes in shareholders' equity:

For the year ended 31 December 2018:

Financial statement impacted	Account	Before restatement	Effect of restatement	As restated
Statement of changes in Equity	Provision for zakat and income tax (retained earnings)	16,944,387	(16,944,387)	--
Statement of income	Zakat and income tax expenses	--	16,944,387	(16,944,387)

3. IMPACT OF CHANGE IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS

IFRS 16 Leases replaces the guidance on leases, which was included in 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 in the Legal Form of a Lease".

Effective 1 January 2019 the Company has adopted a new accounting standard, the impact of the adoption of this standard is explained below:

Before 1 January 2019, the Company followed the below accounting policy for leases in which the Company was a lessee:

Operating leases
Where the Company was a lessee, rental payments were recognised as expenses in the statement of income on a straight-line method basis over the lease contract period.

Accounting policy applicable on and after 1 January 2019:

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 applies the cost model, and measures the right of use asset at cost:
a) Less any accumulated depreciation and any accumulated impairment losses; and
c) Adjusted for any re-measurement of the lease liability for lease modifications.

Lease Liability

On initial recognition, the lease liability is the present value of all remaining payments to the lessor. After the commencement date, the Company measures the lease liability by:

1. Increasing the carrying amount to reflect interest on the lease liability;
2. Reducing the carrying amount to reflect the lease payments made and;
3. Re-measuring the carrying amount to reflect any re-assessment or lease modification.

IFRS 16 stipulates that all leases and the associated contractual rights and obligations should generally be recognized in the Company's statement of financial position, unless the term is 12 months or less or the lease is for a low value asset. Thus, the classification required under IAS 17 into either an operating or finance lease is eliminated for lessees. For each lease, the lessee recognises a liability for the lease obligations to be incurred in the future. Correspondingly, a right to use the leased asset is capitalised, which is generally equivalent to the present value of the future lease payments plus directly attributable costs and which is amortized over the useful life.

The Company adopted IFRS 16 using the modified retrospective approach. The Company elected to apply the standard to contracts that were previously identified as a lease applying IAS 17 and IFRIC 4. The Company therefore did not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4. The Company elected to use the exemptions proposed by the standard on lease contracts for which the lease term ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The adoption of IFRS 16 did not have any material impact on the Company's accounting policies and did not require any retrospective adjustments.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are consistent with those followed in the preparation of previous year financial statements, except for the policies in note 2 (d) and 3.

The following are the significant accounting policies followed in the preparation of these financial statements:

Classification of financial assets

On initial recognition, a financial asset is classified as measured at: amortized cost, FVOCI or fair value through profit or loss (FVTPL).

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

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

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; 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.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Profit and foreign exchange gains and losses are recognised in profit or loss.

Equity instrument: 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 instrument-by- instrument basis.

Financial asset at FVTPL
All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Company may irrevocably designate a financial asset, that otherwise meets the requirements to be measured at amortized cost or at FVOCI, as at FVTPL 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 when the Company changes its business model for managing financial assets.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business model assessment

The Company assess the objective of a business model in 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;
- 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; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realized.

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.

Financial assets that are held for trading and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessments whether contractual cash flows are solely payments of principal and profit

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

The Company classifies its financial liabilities, as measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium to issue the funds, and other cost that are integral part of the effective profit rate.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 derecognized) 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 recognized in OCI is recognized in profit or loss.

From 1 January 2018, any cumulative gain/loss recognized in OCI in respect of equity investment securities designated as at FVOCI is not recognized in profit or loss on derecognition of such securities. Any profit in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognized 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.

Financial liabilities
The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expire.

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 derecognized and a new financial asset is recognized at fair value.

If the cash flows of the modified asset carried at amortized 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 profit or loss. 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.

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 recognized at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in profit or loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment
The Company recognizes loss allowances for ECL on investment in finance lease.

No impairment loss is recognized on equity investments.

The Company measures loss allowances at an amount equal to lifetime ECL, except for the financial instruments on which credit risk has not increased significantly since their initial recognition, these loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Measurement of ECL
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: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive);
- 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 flows;

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 derecognized 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; and
- 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 effective yield of the existing financial asset.

Credit-impaired financial assets
At each reporting date, the Company assesses whether financial assets carried at amortized 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.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or lease by the Company on terms that the Company would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A lease 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.

Presentation of allowance for ECL in the statement of financial position
Impairment allowances for ECL of financial assets measured at amortised cost are presented in the statement of financial position as a deduction from the gross carrying amount of the assets.

Write-off
Investment in finance leases 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. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to impairment charge for credit losses.

Income and expenses recognition

Income and expenses
Finance lease income and borrowing cost are recognized in profit or loss using the effective profit method. The 'effective profit rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to or the amortized cost of the financial instrument.

When calculating the effective profit rate for financial instruments other than credit-impaired assets, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective profit rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective profit rate includes transaction costs and fees and points paid or received that are an integral part of the effective profit rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Insurance income is recognised in the statement of income over the lease term.

Processing fee received upfront are recognised over the financing period as per the effective yield on financial assets.

Measurement of amortized cost and income
The 'amortized cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective profit method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In calculating profit, the effective profit rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, profit is calculated by applying the effective profit rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of profit reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, profit is calculated by applying the credit-adjusted effective profit rate to the amortized cost of the asset. The calculation of profit does not revert to a gross basis, even if the credit risk of the asset improves.

Cash and cash equivalents
Cash and cash equivalents comprise of cash in hand, cash with bank and money market placements having original maturity of less than 90 days.

Net investment in finance leases
Net investment in finance lease represents leasing contracts which are receivable from customers on account of finance leases. Leases in which the Company transfers substantially all the risks and rewards incidental to the ownership of an asset to the lessees at the end of the contract are classified as finance leases. Net investment in finance leases are recorded at the inception of the lease at the lower of the fair value of the leased asset or the present value of the minimum lease payments.

All leased vehicles are under the Company’s name, and the contract signed with customer represents lease contract with irrevocable promise to transfer the ownership, where the legal title of the asset will be passed to the lessee once all lease instalments are settled. Based on the criteria as laid out in IFRS 16, these contracts meet the definition of a finance lease, even though the legal ownership of these underlying properties is not transferred as of the reporting date.

Gross investment in finance leases include the total of future lease payments on finance leases (lease receivables), plus estimated residual amounts receivable. The difference between the lease receivables and the cost of the leased asset is recorded as unearned lease income and for presentation purposes, is deducted from the gross investment in finance leases.

Property and equipment
Property and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in the asset's carrying amount 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 entity and the cost of the item can be measured reliably. Cost incurred to replace a component of an item of property, plant and equipment is capitalised and the asset so replaced is retired from use. All other repairs and maintenance expenditures are charged to the statement of profit or loss during the period in which they are incurred.

Depreciation is charged to statement of profit or loss using the straight-line method over the estimated useful lives of the assets as follows:

	Years
Leasehold improvements	10
Furniture and fixtures	10
Equipment	7
Computer hardware	4
Motor vehicles	4

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets

Intangible assets that are acquired by the Company have finite useful lives and are measured at cost less accumulated amortisation and impairment, if any.

These are amortised on a straight-line basis in statement of income over their estimated useful lives from the date that they are available for use.

The intangible assets comprise of computer softwares and their estimated useful life is 3 years.

Post-employment benefits

The Company operates a defined benefit plan for employees in accordance with Saudi Labor Law as defined by the conditions stated in the laws of the Kingdom of Saudi Arabia. The cost of providing the benefits under the defined benefit plan is determined using the projected unit credit method.

Remeasurements for actuarial gains and losses are recognised immediately in the statement of financial position with a corresponding credit to retained earnings through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service cost are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date the Company recognises related restructuring costs

Interest cost is calculated by applying the discount rate to the net defined benefit liability. The Company recognises the following changes in the net defined benefit obligation in the statement of income:

- Service costs comprising current service costs, past service costs, gains and losses on curtailments and non routine-settlements (under general and administrative expenses)
- Net special commission expense or income (under general and administrative expenses)

Zakat and income tax

Zakat and income tax are computed in accordance with Saudi Arabia Tax and Zakat regulations. They are accrued on a quarterly basis and charged to retained earnings in accordance with SAMA guidelines on zakat and income tax.

Long-term loan

Long-term loan includes special commission bearing borrowing which is recognized initially at fair value. Subsequent to the initial recognition, special commission bearing borrowings are stated at amortized cost with any difference between cost (including transaction cost) and redemption value being recognized in the statement of profit or loss over the period of the borrowing on an effective special commission rate basis.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement

The Company measures certain financial instruments, such as, derivatives and equity instruments at fair value at each statement of financial position date. Also, fair values of financial instruments measured at amortized cost are disclosed in note 24.

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

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

The principal or the most advantageous market must be accessible to by the Company. The fair value of an asset or a liability is measured using assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. The fair value 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 are 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 — Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities based on the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Offsetting

Financial assets and liabilities are offset and are reported net in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and when the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Provisions

Provisions are recognized when the Company has a legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each statement of financial position date and are adjusted to reflect the current best estimate.

Hedge accounting

The Company designates certain derivatives (i.e. commission rate swaps) as hedging instruments in qualifying hedging relationships to manage exposures to commission rate. In order to manage particular risk, the Company applies hedge accounting for transactions that meet specific criteria.

Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from the changes in the fair value of derivatives are taken directly to the statement of income, except for the effective portion of cash flow hedges, which is recognised in the statement of comprehensive income.

For the purpose of cash flow hedge which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability, or to a highly probable forecasted transaction that will affect the reported net gain or loss.

In order to qualify for hedge accounting, the hedge should be expected to be highly effective i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item, and should be reliably measurable. At inception of the hedge, the risk management objective and strategy is documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Company will assess the effectiveness of the hedging relationship. At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting. A formal assessment is undertaken by comparing the hedging instrument's effectiveness in offsetting the changes in fair value or cash flows attributable to the hedged risk in the hedged item, both at inception and at each quarter end on an ongoing basis. Prospective testing is performed mainly through matching the critical terms of both hedge item and instrument. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated were offset by the hedging instrument in a range of 80% to 125% and were expected to achieve such offset in future periods. Hedge ineffectiveness, if any, is recognized in the statement of income.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Hedge Accounting (Continued)
Hedge accounting is discontinued when the hedging instrument is expired or sold, terminated or exercised, or no longer qualifies for hedge accounting, or the forecast transaction is no longer expected to occur or the Company revokes the designation then hedge accounting is discontinued prospectively.

At that point of time, any cumulative gain or loss on the cash flow hedging instrument that was recognised in shareholders' equity is transferred to the statement of profit or loss for the period.

Proposed dividend and transfer between reserves
Dividends and appropriations to reserves, except appropriations which are required by law, made subsequent to the statement of financial position date are considered as non-adjusting events and are recorded in the financial statements in the year in which they are approved / transfers are made.

Impairment of non-financial assets
An assessment is made at each reporting date to determine whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's, or cash-generating units (CGU), fair value less cost to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

Segment reporting
A segment is a distinguishable component of the Company that is engaged either in providing products or services (a business segment) or in providing products or services within a particular economic environment, which is subject to risks and rewards that are different from those of other segments.

Value Added Tax ("VAT")
The Company collects VAT from its customers for qualifying services provided and make VAT payments to its vendors for qualifying payments. On a monthly basis, net VAT remittances are made to the GAZT representing VAT collected from its customers, net of any recoverable VAT on payments. Unrecoverable VAT is borne by the Company and is either expensed or in the case of property, equipment, and intangibles payments, is capitalized and either depreciated or amortized as part of the capital cost.

5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively. Significant areas where management has used estimates, assumption or exercised judgment are as follows:

i. Impairment of financial assets

The measurement of impairment losses under IFRS 9 across all categories of financial assets 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 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 criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime ECL basis and the qualitative assessment;

- Development of ECL models, including the various formulas and the choice of inputs;

- Determination of associations between macroeconomic scenarios and, economic inputs, such as oil prices, and the effect on PDs, exposure at default (EAD) and loss given defaults (LGD); and

- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

ii. 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. Additionally, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements have been prepared on a going concern basis.

iii. Fair value measurement - refer note 4 and 24

iv. End of service benefits - refer note 4 and 18

6. CASH AND CASH EQUIVALENTS

	31 December 2019	31 December 2018
Cash in hand	**2,500**	2,500
Cash at bank	**19,828,918**	76,410,174
Term deposit	**--**	50,000,000
	19,831,418	126,412,674

7. NET INVESTMENT IN FINANCE LEASES

		31 December 2019		
		Not later than one year	**Later than one year and less than five years**	**Total**
Lease contract receivables		**1,130,795,211**	**2,052,034,906**	**3,182,830,117**
Unearned lease income		**(231,379,853)**	**(419,749,336)**	**(651,129,189)**
		899,415,358	**1,632,285,570**	**2,531,700,928**
Provision for expected credit losses	*7.1*	**(37,314,466)**	**(67,721,572)**	**(105,036,038)**
Net investment in finance leases		**862,100,892**	**1,564,563,998**	**2,426,664,890**

These leased assets carry profit rates ranging from 3% to 7% per annum (31 December 2018: 3% to 7%) and lease rentals are determined on the basis of implicit rate of profit based on the cash flows of the lease. The Company holds the title of the leased assets as a collateral against the finance leases.

		31 December 2018		
		Not later than one year	Later than one year and less than five years	Total
Lease contract receivables		996,177,692	2,065,798,294	3,061,975,986
Unearned lease income		(209,259,992)	(434,106,303)	(643,366,295)
		786,917,700	1,631,691,991	2,418,609,691
Provision for expected credit losses	*7.1*	(32,818,672)	(68,186,922)	(101,005,594)
Net investment in finance leases		754,099,028	1,563,505,069	2,317,604,097

7.1 The movement in the allowance for expected credit losses is as follows:

	2019	2018
Balance as at 1 January	**101,005,594**	82,512,604
Charge for the year	**4,762,035**	18,492,990
Write off	**(731,591)**	--
Balance as at 31 December	**105,036,038**	101,005,594

8. ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES

	31 December 2019	31 December 2018
Prepaid insurance	**63,645,222**	39,627,749
VAT receivable, net	**5,525,577**	10,426,808
Dealer receivable	**5,445,071**	2,665,414
Advance VAT paid to dealers	**3,564,456**	1,702,223
Prepaid rent	**195,135**	160,135
Other receivables	**1,560,334**	632,648
	79,935,795	55,214,977

9. INVESTMENT AT FVOCI

Pursuant to Article 18/1 of the financial leasing law, Saudi Financial Lease Contract Registry Company ("SFLCRC") was established on 3/2/1439, corresponding to 23 October 2017, under CR No. 1010612415, and SAMA approval no. 381000124076 dated 23/12/1438, corresponding to 14 September 2017.

This Company has been set up by SAMA as a means to further regulate the market and facilitate transfer of leases between suppliers of finance and counterparties. SIJIL has 700,000 shares of SR 10 each. These 700,000 shares have been divided between finance lease companies registered and operating in Saudi Arabia. The Company purchased 89,285 shares at SR 10 each, amounting to SR 892,850.

In 2019, the SFLRC has started its operations and accordingly charged the Company registration charges amounting to SR 276,210.

As at the date of these financial statements, the carrying value of this investment is not materially different to its fair value.

10. DERIVATIVE

	31 December 2019			
Derivative financial instruments	**---------------Notional amount---------------**			
<u>Held for cash flow hedging</u>	**Within 3 months**	**3-12 months**	**1-5 year**	**Total**
Commission rate swaps	**104,375,000**	**290,625,000**	**1,175,000,000**	**1,570,000,000**

	31 December 2018			
Derivative financial instruments	---------------Notional amount---------------			
<u>Held for cash flow hedging</u>	Within 3 months	3-12 months	1-5 year	Total
Commission rate swaps	145,000,000	397,500,000	1,152,500,000	1,695,000,000

The Company entered into commission rate swaps with its parent, BSF. The positive fair value of commission rate swaps as on 31 December 2019 is SAR 1,917,631 (31 December 2018: SAR 5,192,208) and negative fair value of commission rate swaps is SAR 21,742,067 (31 December 2018: SAR 5,465,092). The fair value of commission rate swaps is calculated using discounted cash flow model using a risk free discount rate adjusted for appropriate risk margin for counterparty risk including entity's own credit risk.

11. INTANGIBLE ASSETS

	31 December 2019	31 December 2018
Cost	**4,736,194**	4,546,819
Additions during the year	**58,165**	189,375
	4,794,359	4,736,194
Opening amortization balance	**(4,410,818)**	(4,212,869)
Amortization charge for the year	**(172,212)**	(197,949)
Accumulated amortization at end of the year	**(4,583,030)**	(4,410,818)
Net book value	**211,329**	325,376

12. PROPERTY AND EQUIPMENT

Movement in the property and equipment during the year is as follows:

For the year ended 31 December 2019	**Lease hold improvements**	**Furniture and fixtures**	**Equipments**	**Motor vehicles**	**Computer hardware**	**Total**
Cost:						
Balance at beginning of the year	**8,000**	**82,696**	**572,238**	**377,000**	**533,604**	**1,573,538**
Additions	**--**	**15,750**	**308,133**	**--**	**--**	**323,883**
Balance at the end of the year	**8,000**	**98,446**	**880,371**	**377,000**	**533,604**	**1,897,421**
Accumulated depreciation:						
Balance at beginning of the year	**4,606**	**26,138**	**279,985**	**330,434**	**533,579**	**1,174,742**
Charge for the year	**799**	**8,931**	**101,677**	**31,469**	**--**	**142,876**
Balance at the end of the year	**5,405**	**35,069**	**381,662**	**361,903**	**533,579**	**1,317,618**
Net book value at 31 December 2019	**2,595**	**63,377**	**498,709**	**15,097**	**25**	**579,803**

For the year ended 31 December 2018	Lease hold improvements	Furniture and fixtures	Equipment	Motor vehicles	Computer hardware	Total
Cost:						
Balance at beginning of the year	8,000	82,696	460,203	356,000	533,604	1,440,503
Additions	--	--	112,035	21,000	--	133,035
Balance at the end of the year	8,000	82,696	572,238	377,000	533,604	1,573,538
Accumulated depreciation:						
Balance at beginning of the year	3,806	17,870	210,039	238,496	533,579	1,003,790
Charge for the year	800	8,268	69,946	91,938	--	170,952
Balance at the end of the year	4,606	26,138	279,985	330,434	533,579	1,174,742
Net book value at 31 December 2018	3,394	56,558	292,253	46,566	25	398,796

13. RELATED PARTY TRANSACTIONS

The related parties of the Company comprise of BSF and its affiliated entities and certain key management personnel. The Company transacts with its related parties in the ordinary course of business. The transactions with related parties are undertaken in light of applicable rules and regulations.

The Company in its ordinary course of business transacts with the following related parties. The terms of those billings and charges are on an agreed basis with these related parties:

Name	**Relationship**
Banque Saudi Fransi (BSF)	Parent
Sofinco Saudi Fransi (SSF)	Affiliate
Allianz Saudi Fransi (ASF)	Affiliate

In addition to the related party transactions and balances disclosed elsewhere in these financial statements, significant transactions and balances arising from transactions with related parties are as follows:

a) Transactions with related parties

Nature of transactions	***Related parties***	**For the year ended 31 December 2019**	For the year ended 31 December 2018
Lease rental collected	Sofinco Saudi Fransi (An affiliate)	**788,930**	1,384,899
Transfer of lease rentals to related party	BSF	**660,628**	1,235,397
IT maintenance and network related expenses	BSF	**(1,338,749)**	(270,000)
Financial charges on long-term loan and commission rate swaps including bank charges	BSF	**(56,717,018)**	(60,192,299)
Commission on short term deposit	BSF	**120,764**	134,792
Salaries and employee related expenses	BSF	**(3,720,786)**	(7,423,848)
Finance Lease disbursed	BSF and certain member of the BOD	**776,930**	530,266
Insurance expense of leased assets	Allianz Saudi Fransi	**(118,744,565)**	(117,588,353)
Draw down of long-term loan	BSF	**400,000,000**	350,000,000
Payments of long-term loan	BSF	**(475,000,000)**	(560,000,000)
Cash received for end of service benefit	BSF	**585,894**	--
Term deposit	BSF	**(50,000,000)**	50,000,000

Certain expenses paid by BSF on behalf of the Company were not charged by BSF to the Company; these expenses mainly included provision of rent free premises, telephone expenses and electricity expenses.

The above transactions mainly resulted in the following balances:

b) Due to related parties (excluding term loan) :

	31 December 2019	31 December 2018
BSF	**4,303,030**	3,160,247
Allianz Saudi Fransi	**1,539,176**	9,269,248
	5,842,206	12,429,495

13. RELATED PARTY TRANSACTIONS (CONTINUED)

c) Due from a related party:

	31 December 2019	31 December 2018
BSF	**--**	26,111
	--	26,111

d) The details of the other balances with related parties are as below:

Other balances with a related party:

Nature of balances	***Related party***	**31 December 2019**	31 December 2018
Cash and Cash equivalents	Banque Saudi Fransi	**19,828,918**	126,410,174
Long-term loan	Banque Saudi Fransi	**1,627,086,962**	1,703,867,529

As at 31 December 2019, the Company had 11 lease contracts (31 December 2018: 27) with Banque Saudi Fransi with an aggregate outstanding principal amounting to SAR 0.84 million (31 December 2018: SAR 2.081 million).

e) The company considers chief executive officer and chief financial officer as key management personnel. The compensation of the key management personnel are listed below:

	2019	2018
Salaries	**1,464,741**	1,436,404
End of service benefits	**124,766**	121,480
Other allowances	**24,000**	24,000
	1,613,507	1,581,884

14. DEFERRED TAX ASSET

The company has booked deferred tax asset amounting to SR 2,909,194 as at 31 December 2019 pertaining to deductible temporary differences. These differences arisen from impairment allowance for expected credit losses, property and equipment depreciation and end of service benefits.

The Company has not restated balances in the prior years as deferred tax balance was not material to the financial statements.

15. LONG TERM LOAN

The Company has a shariah compliant loan facility "Al Tawarroq" with a limit of SAR 2,000 million from its parent Banque Saudi Fransi ("BSF").

As at 31 December, the outstanding / utilized amounts from the above facility which are as follows:

	31 December 2019	31 December 2018
Current portion	**452,086,962**	551,367,529
Non-current portion	**1,175,000,000**	1,152,500,000
	1,627,086,962	1,703,867,529

The long-term loans carry special commission rate equal to SIBOR plus bank margins payable on quarterly basis. The management have provided BSF with promissory notes against this facility.

15. LONG TERM LOAN (CONTINUED)

The movement in borrowings for the year ended 31 December was as follows:

	31 December 2019	31 December 2018
Balance at beginning of the year	**1,703,867,529**	1,905,250,874
Borrowings made during the year	**400,000,000**	350,000,000
Principal repayments during the year	**(475,000,000)**	(560,000,000)
Profit accrued during the year	**56,717,018**	60,192,299
Profit repayments during the year	**(58,497,585)**	(51,575,644)
Balance at end of the year	**1,627,086,962**	1,703,867,529

16. ACCOUNTS PAYABLE

	31 December 2019	31 December 2018
Third party insurance collected	**11,826,950**	13,699,279
Dealers payable	**22,949,629**	9,542,948
Commission payable	**3,667,638**	2,295,174
Insurance Payable	**5,154,627**	--
Customer verification expense payable	**1,133,283**	1,464,706
Government fee payable	**867,289**	453,595
Others	**32,398**	26,580
	45,631,814	27,482,282

17. ACCRUED EXPENSES AND OTHER LIABILITIES

	Note	**31 December 2019**	31 December 2018
Liabilities taken over from Sofinco Saudi Fransi	*17.1*	**2,033,348**	2,078,397
Salaries and employee related expenses		**8,787,674**	6,865,108
Legal and professional charges		**471,729**	339,719
Payable to service providers		**317,847**	167,410
Others		**46,888**	250,946
		11,657,486	9,701,580

17.1 The details of liabilities taken over from Sofinco Saudi Fransi, a related party on account of portfolio transfer of finance lease contracts to the Company, are as follows:

	31 December 2019	31 December 2018
Legal and professional charges	**1,324,416**	1,324,416
Advance from customer	**442,553**	442,553
Third party insurance	**176,403**	176,403
Others	**89,976**	135,025
	2,033,348	2,078,397

18. EMPLOYEE BENEFITS

The following tables summarise the components of employee benefits recognised in the statements of financial position, statement of income and statement of comprehensive income.

a) Amount recognised in the statement of financial position as at 31 December:

	31 December 2019	31 December 2018
Present value of defined benefit obligation	**5,619,117**	4,485,022

b) Benefit expense (recognised in the statement of income):

	For the year ended 31 December 2019	For the year ended 31 December 2018
Current service cost	**1,159,146**	3,415,820
Interest cost	**229,274**	469,013
Benefit expense	**1,388,420**	3,884,833

c) Amount recognized in statement of comprehensive income:

	For the year ended 31 December 2019	For the year ended 31 December 2018
Actuarial gain on defined benefit plan	**(334,511)**	(180,711)

d) Movement in the present value of defined benefit obligation:

	For the year ended 31 December 2019	For the year ended 31 December 2018
Present value of defined benefit obligation at beginning of the year	**4,485,022**	873,846
Charge recognised in the statement of profit or loss:		
Current service cost	**1,159,146**	3,415,820
Interest cost	**229,274**	469,013
	1,388,420	3,884,833
Actuarial gain on defined benefit plan recognized in the statement of other comprehensive income	**(334,511)**	(180,711)
Benefits paid	**(505,708)**	(92,946)
Transfer from BSF	**585,894**	--
Present value of defined benefit obligation at end of the year	**5,619,117**	4,485,022

e) Principal actuarial assumptions:

	31 December 2019	31 December 2018
Discount rate	**3.05%**	4.65%
Salary increase rate	**3.05%**	4.65%

During 2019, the discount rate has been reduced to SR 3.05% to reflect the current market yields of KSA government bonds considering the average duration of the defined benefit obligation of 11.62 years. Furthermore, management has reduced the expected salary increase rate to SR 3.05% based on the recent available trend on salary increases of the Company’s employees.

18. EMPLOYEE BENEFITS (CONTINUED)

f) Maturity analysis

The maturity profile of the defined benefit obligation is as follows:

	2019	2018
Weighted average duration of the defined benefit obligation	**11.62**	10.31
Distribution of timing of benefit payments		
Year 1	**326,886**	257,682
Year 2	**481,956**	911,825
Year 3	**450,813**	386,313
Year 4	**529,028**	439,057
Year 5	**607,695**	512,904
Year 6-10	**4,073,069**	3,683,323

g) 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 obligation by the amounts shown below:

	31 December 2019		31 December 2018	
	Increase	**Decrease**	Increase	Decrease
Discount rate (0.5% movement)	**(276,593)**	**288,846**	(221,617)	241,815
Future salary growth (0.5% movement)	**382,641**	**(195,238)**	156,584	(146,343)

19. ZAKAT AND TAX

The movement in the provision for zakat and tax for the years ended 31 December is as follows:

	31 December 2019	31 December 2018
Opening zakat and tax	**13,244,777**	3,569,436
Charge for the year:		
- Current	**10,161,406**	10,500,756
- Prior years	**--**	6,443,631
- Deferred tax	**(2,909,194)**	--
Charge for the year	**7,252,212**	16,944,387
Payment during the year	**(12,002,816)**	(7,269,046)
Closing zakat and tax	**8,494,173**	13,244,777

Status of assessments

The Company has submitted its zakat and income tax returns for the years ended 31 December 2012 to 2018 with the General Authority of Zakat and Income Tax ("GAZT").

Following is the zakat and income tax status of the Company:

2012 to 2015

GAZT issued assessments for the years 2012 to 2015 and claimed additional zakat liability of SR 9,828,111. The differences mainly resulted from the non-deduction of the provision for finance lease losses, provision for end of service benefit, depreciation and due to related parties. The Company has filed appeal with General Secretariat of Tax Committees (GSTC) and is also under discussion with the Alternative Dispute Resolution Committee (ADRC) against the said assessment.

2015 to 2017

During prior year, the Company settled assessments with GAZT for the years 2015 to 2017. Current outstanding amount as at 31 December 2019 with respect to this settlement is SR 4,123,924. The company will pay these amounts in equal installments of SR 1,030,981 every year till 1 December 2023.

19. ZAKAT AND TAX (CONTINUED)

The GAZT has issued the implementing rules and regulations under Ministerial Decree No. 2216 dated 7 Rajab 1440H (corresponding to 14 March 2019) in respect to the calculation of zakat of financing activities which was applied by the Company effective 1 January 2019. Based on this, the Company has recognised zakat expense amounting to SR 7,824,882 for the year ended 31 December 2019.

20. SHARE CAPITAL

The authorised, issued and paid-up share capital of the Company is SAR 500 million (31 December 2018: SAR 500 million) divided into 50 million (31 December 2018: 50 million) shares of SAR 10 (31 December 2018: SAR 10) each and 100% owned by BSF.

21. STATUTORY RESERVE

The Company's Articles of Association and the Regulations for Companies in the Kingdom of Saudi Arabia require the Company to allocate 10% of its net income before zakat and income tax each year to form a statutory reserve until such reserve equals 30% of the Company's share capital. The statutory reserve is not available for distribution. During the year, the Company has transferred SR 8.0 million (2018: SR 8.5 million).

22. FEE INCOME AND EXPENSES

Fee income	**2019**	2018
Insurance income	**178,193,210**	160,223,438
Processing fee	**8,614,682**	6,216,894
Other operating income	**3,330,468**	2,322,553
	190,138,360	168,762,885
Fee expenses		
Insurance expenses	**(131,198,233)**	(117,588,353)
Commission	**(9,079,869)**	(2,682,733)
Registration fee	**(3,031,083)**	(1,810,055)
Verification expenses	**(1,061,172)**	(468,363)
	(144,370,357)	(122,549,504)

23. GENERAL AND ADMINISTRATION EXPENSES

	2019	2018
IT maintenance and network related expenses	**2,063,142**	320,067
Communication expenses	**352,990**	110,781
Legal and professional charges	**766,286**	604,760
General insurance expense	**190,202**	55,359
Collection expenses	**1,800,000**	450,000
Printing and stationery	**210,547**	238,168
Consultancy fees	**317,738**	28,000
Traveling expenses	**205,705**	113,220
Repair and maintenance	**83,992**	24,795
Advertising and promotion expenses	**66,670**	51,000
Penalty paid to SAMA (refer note 23.1)	**100,000**	75,000
Other expenses	**118,811**	100,034
	6,276,083	2,171,184

23.1 The Company paid a penalty of SAR 100,000 to SAMA on account of not including balloon payment of one of the product in the calculation of Debt Burden Ration (DBR). Company has agreed with SAMA to include the option of reschedule of the balloon payment for such customer.

23. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All financial assets (including lease receivables) and financial liabilities are measured at amortized cost except for derivative financial instruments and equity instrument which are measured at fair value. The carrying amounts of all financial assets and financial liabilities measured at amortized cost approximate their fair values except for net investments in finance leases.

The following table shows the carrying amount and fair values of financial assets and financial liabilities where fair value is different from carrying value or where the financial assets and liabilities are recorded at fair value, including their levels in the fair value hierarchy.

		---------------Fair Value---------------			
31 December 2019	***Carrying Value***	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets:					
Positive fair value of derivative	**1,917,631**	**--**	**1,917,631**	**--**	**1,917,631**
Net investments in finance leases	**2,531,700,928**	**--**	**--**	**2,254,301,916**	**2,254,301,916**
Financial liabilities:					
Negative fair value of derivative	**21,742,067**	**--**	**21,742,067**	**--**	**21,742,067**

		---------------Fair Value---------------			
31 December 2018	*Carrying Value*	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets:					
Positive fair value of derivative	5,192,208	--	5,192,208	--	5,192,208
Net investments in finance leases	2,418,609,691	--	--	2,015,030,109	2,015,030,109
Financial liabilities:					
Negative fair value of derivative	5,465,092	--	5,465,092	--	5,465,092

The fair value of net investment in finance lease is determined using discounted cash flow technique considering the credit adjusted market rates. The rates are determined based on the risk profile of lease receivables and current commission rates.

24. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Fair value of long-term loan is not significantly different from the carrying values included in the financial statements since the current market commission rates for similar financial instruments are not significantly different from the contracted rates.

Fair value of financial assets held at fair value through other comprehensive income – equity instruments is not significantly different from the carrying values included in the financial statements.

There had been no inter-level transfers during the year.

25. FINANCIAL RISK MANAGEMENT

The Board of Directors are responsible for the overall risk management approach and for approving the risk management strategies and principles. The Board has nominated the risk management head, who has the responsibility to monitor the overall risk process within the Company and for the development of the risk strategy and implementing principles, frameworks, policies and limits.

The risk management head is responsible for managing risk decisions and monitoring on risk levels and reports on a quarterly basis to the Risk Management Committee.

1) Credit risk

The Company manages exposure to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in lending activities that lead to investment in finance lease receivables.

The Company assesses the probability of default of counterparties using internal rating tools.

The Company attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. Company’s risk management policies are designed to identify, to set appropriate risk limits, and to monitor the risks and adherence to limits. Actual exposures against limits are monitored on regularly basis.

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

The Company seeks to manage its credit risk exposure through diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or business. Further, the Company holds the title of the leased assets as a collateral against the finance leases and in case of default by the customer, the outstanding amount is recovered through the disposal of the leased assets.

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

The table below shows the gross maximum exposure to credit risk for the components of the statement of financial position:

	31 December 2019	31 December 2018
Cash and cash equivalent	**19,828,918**	126,412,674
Net investment in finance lease	**2,426,664,890**	2,317,604,097
Other receivables	**6,361,357**	3,216,543
	2,452,855,165	2,447,233,314

a) Credit quality analysis

The following table sets out information about the credit quality of financing and leasing financial assets as at 31 December 2019. The amounts in the table represent gross carrying amounts.

	31 December 2019			
Gross Investment in finance leases	**12 Month ECL**	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Very strong quality (A+ to B)	**2,030,242,970**	**1,356,862**	**--**	**2,031,599,832**
Good quality (C+ to C)	**825,900,551**	**114,320,970**	**--**	**940,221,521**
Satisfactory quality (C- to E +)	**3,869,759**	**35,211,038**	**--**	**39,080,797**
Impaired	**--**	**--**	**171,927,967**	**171,927,967**
Total	**2,860,013,280**	**150,888,870**	**171,927,967**	**3,182,830,117**

The following table sets out information about the credit quality of financing and leasing financial assets as at 31 December 2018. The amounts in the table represent gross carrying amounts.

	31 December 2018			
Gross Investment in finance leases	12 Month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Very strong quality (A+ to B)	627,015,195	30,782,287	--	657,797,482
Good quality (C+ to C)	1,558,144,219	265,219,697	--	1,823,363,916
Satisfactory quality (C- to E +)	304,066,659	103,037,021	--	407,103,680
Impaired	--	--	173,710,908	173,710,908
Total	2,489,226,073	399,039,005	173,710,908	3,061,975,986

b) Amounts arising from ECL – Significant increase in credit risk

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

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

- the 12 month probability of default (PD) as at the reporting date; with
- the 12 month probability of default (PD) at the time of initial recognition of the exposure

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

i) Credit risk grades

The Company allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring of exposures involves use of the following data.

Corporate exposures	Retail exposures	All exposures
• Information obtained during periodic review of customer files. • Data from credit reference agencies and changes in external credit ratings. • Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities	• Internally collected data and customer behavior • Affordability metrics • External data from credit reference agencies including industry-standard credit scores	• Payment record – this includes overdue status as well as a range of variables about payment ratios • Utilization of the granted limit • Requests for and granting of forbearance • Existing and forecast changes in business, financial and economic conditions

i) Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. Company collects performance and default information about its credit risk exposures separately for the corporate and retail portfolios.

The Company analyses the relationships between its historical default rates and macro-economic factors. For both the corporate and retail portfolios, the key macro-economic indicator is oil price. The Company has formulated a view of the future direction of relevant economic variables for various different scenarios.

ii) Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency is based on the Company's quantitative modeling.

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

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

Company monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews of the corporate portfolio to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default; and
- the criteria do not align with the point in time when an asset becomes 30 days past due;

iii) Modified financial assets

The contractual terms of a lease may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing lease whose terms have been modified may be derecognized and the renegotiated instrument recognized as a new instrument at fair value in accordance with the accounting policy.

When the terms of a financial asset are modified and the modification does not result in de-recognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- The risk of default at the reporting date (based on modified contractual terms) and
- The risk of default occurring at initial recognition (based on original, unmodified contractual terms).

If the modification results in derecognition, the determination of whether the asset’s credit risk has increased significantly reflects a comparison of the following:

- risk of default at the reporting date (based on modified contractual terms); and
- the risk of default based on the modified terms.

The modified terms usually include extending the maturity, changing the timing of profit payments and amending the terms of loan covenants. Both retail and corporate loans are subject to modification.

For financial assets, which are modified, the estimate of Probability of default (PD) reflects whether the modification has improved or restored the Company ability to collect profit and principal. As part of this process, the Company evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, a customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired / default or the risk of default is considered to have decreased.

iv) Definition of ‘Default’

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to Company in full; or
- the borrower is past due more than 90 days on any material credit obligation to Company.

In assessing whether a borrower is in default the Company considers indicators that are quantitative- e.g. overdue status and non-payment on another obligation of the same customer to Company.

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

v) Measurement of ECL

The key inputs into the measurement of ECL are the following risk estimates:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

PD estimates are estimates at a certain date, which are calculated, based on statistical rating models, and assessed using rating tools tailored for company's portfolio. These rating models are based on both quantitative and qualitative factors. If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD. Further the PD term structure is estimated considering the contractual maturities of exposures.

LGD is the magnitude of the likely loss if there is a default. Company estimates LGD based on the history of recovery rates of claims against defaulted counterparties. LGD model considers the structure, any sale of collateral, and recovery costs of any collateral that is integral to the financial asset.

EAD represents the expected exposure in the event of a default. Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Company measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk, even if, for risk management purposes, the Company considers a longer period.

c. Loss allowance

The following table shows reconciliations from the opening to the closing balance of the carrying amount of the investment in finance lease and the related loss allowance account for the year ended 31 December 2019.

Investments in finance lease	**12 Month ECL**	**Lifetime ECL (not credit impaired)**	**Lifetime ECL (credit impaired)**	**Total**
Balance at 1 January, 2019	**1,965,268,473**	**317,614,745**	**135,726,473**	**2,418,609,691**
Transfer from 12 Month ECL	(90,253,987)	65,924,379	24,329,608	--
Transfer from Lifetime ECL not credit – impaired	149,456,705	(180,055,916)	30,599,211	--
Net repayment received during the year	(728,242,393)	(91,832,486)	(57,204,006)	(877,278,885)
New finance lease receivables originated during the year	974,008,767	12,798,752	3,562,603	990,370,122
Balance at 31 December 2019	**2,270,237,565**	**124,449,474**	**137,013,889**	**2,531,700,928**

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

Loss Allowance	**12 Month ECL**	**Lifetime ECL (not credit impaired)**	**Lifetime ECL (credit impaired)**	**Total**
Balance at 1 January, 2019	**14,865,410**	**15,925,339**	**70,214,845**	**101,005,594**
Transfer from 12 Month ECL	(836,372)	592,701	243,671	--
Transfer from Lifetime ECL not credit – impaired	15,307,151	(8,902,831)	(6,404,320)	--
Net re-measurement of loss allowance	(13,152,026)	(187,990)	24,125,334	10,785,318
Financial assets that have been derecognized during the year	(2,381,576)	(2,194,133)	(10,375,219)	(14,950,928)
New finance lease receivables originated during the year	6,015,147	780,610	1,400,297	8,196,054
Balance at 31 December 2019	**19,817,734**	**6,013,696**	**79,204,608**	**105,036,038**

The following table shows reconciliations from the opening to the closing balance of the carrying amount of the investment in finance lease and the related loss allowance account for the year ended 31 December 2018.

Investments in finance lease	12 Month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Balance at 1 January, 2018	2,321,468,860	192,020,021	71,976,491	2,585,465,372
Transfer from 12 Month ECL	(313,736,468)	252,691,423	61,045,045	--
Transfer from Lifetime ECL not credit – impaired	--	(55,350,668)	55,350,668	--
Net repayment received during the year	(600,816,123)	(95,026,393)	(55,771,822)	(751,614,338)
New finance lease receivables originated during the year	558,352,204	23,280,362	3,126,091	584,758,657
Balance at 31 December 2018	1,965,268,473	317,614,745	135,726,473	2,418,609,691

Loss Allowance	12 Month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Balance at 1 January, 2018	26,957,782	11,854,782	43,700,040	82,512,604
Transfer from 12 Month ECL	(8,079,412)	5,468,229	2,611,183	--
Transfer from Lifetime ECL not credit – impaired	--	(3,692,916)	3,692,916	--
Net re-measurement of loss allowance	(4,137,378)	1,954,949	25,908,336	23,725,907
Financial assets that have been derecognized during the year	(2,975,671)	(1,130,408)	(6,897,808)	(11,003,887)
New finance lease receivables originated during the year	3,100,089	1,470,703	1,200,178	5,770,970
Balance at 31 December 2018	14,865,410	15,925,339	70,214,845	101,005,594

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

2) Market rate risk

a) Special commission rate risk

Special commission rate risk is the uncertainty of future earnings resulting from fluctuations in special commission rates. The risk arises when there is a mismatch in assets and liabilities, which are subject to special commission rate adjustment within a specified period. The most important source of such rate is the Company's borrowing where fluctuations in special commission rates, if any, are reflected in the results of its operations. Management monitors the change in the special commission rate and believes that the net special commission rate risk to the Company is not significant.

b) 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 and US Dollars. As US Dollar is pegged with Saudi Riyal, therefore, Company does not have any currency risk in these transactions.

3) Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately.

Management monitors the maturity profile of the Company's assets and liabilities based on the remaining period at the statement of financial position date to the contractual maturity date to ensure that adequate liquidity is maintained. All liabilities other than end of service benefits and long-term loans are contractually payable on a current basis. The table below shows an analysis of financial assets and liabilities according to when they are expected to be recovered or settled.

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted repayment obligation. The contractual maturities of the liabilities have been determined based on the remaining period at the statement of financial position date to the contractual maturity date and do not take account of the effective expected maturities.

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

The maturity profile of the Company's financial assets, liabilities, and shareholders' equity is as follows:

31 December 2019	Within 3 months	3 to 12 months	1 to 5 years	No fixed maturity	Total
Assets					
Cash in hand and at banks	--	--	--	19,831,418	19,831,418
Net investment in finance leases	259,101,443	602,999,449	1,564,563,998	--	2,426,664,890
Investment at FVOCI	--	--	--	892,850	892,850
Positive fair value of derivatives	--	--	--	1,917,631	1,917,631
Other receivables	--	--	--	6,361,357	6,361,357
	259,101,443	602,999,449	1,564,563,998	29,003,256	2,455,668,146
Liabilities and Shareholders' equity					
Accounts payable	33,804,864	11,826,950	--	--	45,631,814
Accrued expenses and other liabilities	9,624,138	2,033,348	--	--	11,657,486
Due to related parties	5,842,206	--	--	--	5,842,206
Employees' end of service benefits	--	--	--	5,619,117	5,619,117
Negative fair value of derivatives	--	--	--	21,742,067	21,742,067
Long term loan	111,461,962	290,625,000	1,225,000,000	--	1,627,086,962
	160,733,170	304,485,298	1,225,000,000	27,361,184	1,717,579,652
Maturity gap	98,368,273	298,514,151	339,563,998	1,642,072	
Cumulative maturity gap	98,368,273	396,882,424	736,446,422	738,088,494	

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

3) Liquidity risk (Continued)

The maturity profile of the Company's financial assets, liabilities, and shareholders' equity is as follows:

31 December 2018	Within 3 months	3 to 12 months	1 to 5 years	No fixed maturity	Total
Assets					
Cash in hand and at banks	50,000,000	--	--	76,412,674	126,412,674
Net investment in finance leases	180,612,932	573,486,096	1,563,505,069	--	2,317,604,097
Investment at FVOCI	--	--	--	892,850	892,850
Positive fair value of derivatives	--	--	--	5,192,208	5,192,208
Other receivables	--	--	--	3,190,432	3,190,432
Due from Related Parties	--	--	--	26,111	26,111
	230,612,932	573,486,096	1,563,505,069	85,714,275	2,453,318,372
Liabilities and Shareholders' equity					
Accounts payable	27,482,282	--	--	--	27,482,282
Accrued expenses and other liabilities	9,605,910	--	--	--	9,605,910
Due to related parties	12,429,495	--	--	--	12,429,495
Employees' end of service benefits	--	--	--	4,485,022	4,485,022
Negative fair value of derivatives	--	--	--	5,465,092	5,465,092
Long term loan	153,867,529	397,500,000	1,152,500,000	--	1,703,867,529
	203,385,216	397,500,000	1,152,500,000	9,950,114	1,763,335,330
Maturity gap	27,227,716	175,986,096	411,005,069	75,764,161	
Cumulative maturity gap	27,227,716	203,213,812	614,218,881	689,983,042	

26. GEOGRAPHICAL CONCENTRATION

The Company's operations are restricted to the Kingdom of Saudi Arabia only.

27. CAPITAL MANAGEMENT

The Company manages and controls its capital structure and liquidity needs in order to safeguard the Company's ability to meet its future obligations and growing plans and continue as a going concern. The Company monitors the adequacy of its capital using below measures:

	2019	2018
Capital ratio (%)	**19.85**	19.48%

The capital ratio above is calculated by dividing the Company's total share capital with the weighted average total assets of the Company as at year-end. The Company has a capital of SR 500 million (50 million share).

The Company also raised Tawarruq financing to fund investments in finance lease and to help achieve the differential between cost of funds and financing income from net investment in finance lease.

28. SEGMENT REPORTING

Operating segments are identified on the basis of internal reports about components of the Company that are regularly reviewed by the Company's Board of Directors in its function as chief decision maker in order to allocate resources to the segments and to assess their performance.

A segment is a distinguishable component that is engaged in providing products or services (a business segment), which is subject to risks and rewards that are different from those of other segments.

	Amount in SAR '000		
31 December 2019	**Retail**	**Corporate**	**Total**
Total assets	**2,478,475**	**54,468**	**2,532,943**
Total liabilities	**1,793,160**	**923**	**1,794,083**
Impairment allowance for credit losses	**102,944**	**2,092**	**105,036**
Total income	**326,505**	**8,700**	**335,205**
Total operating expenses	**244,428**	**3,547**	**247,975**
Net income for the year	**82,077**	**5,153**	**87,230**

	Amount in SAR '000		
31 December 2018	Retail	Corporate	Total
Total assets	2,467,761	38,306	2,506,067
Total liabilities	1,826,914	594	1,816,564
Impairment allowance for credit losses	99,668	1,338	101,006
Total income	310,853	9,106	319,959
Total operating expenses	233,467	1,934	235,401
Net income for the year	77,386	7,172	84,558

29. PROSPECTIVE CHANGES IN INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Company has chosen not to early adopt the following new standards and amendments to IFRS which have been issued but not yet effective for the Company's accounting years beginning on January 1, 2019.

- Amendments to References to Conceptual Framework in IFRS Standards
- Definition of Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Sale or Contribution of Assets between an Investor and its associate or Joint Venture (Amendments to IFRS 10 and IAS 28)
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)
- Insurance contracts (IFRS 17)

The Company does not anticipate that these will have a significant impact on the Company's financial statements.

30. COMMITMENTS

The Company has finance lease contracts approved but not utilised, indicative offers issued which are under consideration of the customers as of the reporting date which have the potential to convert into financing amounting to SR 12,894,406 (31 December 2018: SR 7,402,499)

As at 31 December 2019, the Company has an outstanding guarantee of SR 5 million (31 December 2018: SR Nil) submitted in favour of Abdul Latif Jameel Retail Company Limited against purchases of vehicle for onward leasing to customers.

31. SUBSEQUENT EVENTS

There were no subsequent events after the statement of financial position date which require adjustments to / or disclosure in the financial statements.

32. BOARD OF DIRECTOR' APPROVAL

The financial statements have been approved by the Board of Directors on 7 Rajab 1441H (corresponding to 2 March 2020).