# ABDUL LATIF JAMEEL UNITED FINANCE COMPANY
# (A SAUDI CLOSED JOINT STOCK COMPANY)

## UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS AND REVIEW REPORT

### FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED 30 JUNE 2019

**INDEX**

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# REVIEW REPORT

**To the shareholders**
**Abdul Latif Jameel United Finance Company**
**(A Saudi Closed Joint Stock Company)**

**Introduction:**

We have reviewed the accompanying interim condensed statement of financial position of Abdul Latif Jameel United Finance Company (a Saudi Closed Joint Stock Company) (the "Company") as at 30 June 2019 and the related interim condensed statement of comprehensive income for the three-month and six-month periods then ended and the interim condensed statements of changes in shareholders' equity and cash flows for the six-month period then ended and a summary of significant accounting policies and explanatory notes which form an integral part of these interim condensed financial statements. The Company's management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Accounting Standard "Interim Financial Reporting" (IAS 34) as endorsed in the Kingdom of Saudi Arabia ("KSA"). Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

**Scope of review**

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" as endorsed in the KSA. A review of interim condensed financial statements consists of making inquiries, primarily of the persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISAs) as endorsed in the KSA and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared, in all material respects, in accordance with IAS 34 as endorsed in the KSA.

for Ernst & Young

Ahmed I. Reda
Certified Public Accountant
License No. 356

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ترخيص مهني رقم ٤٥
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ERNST & YOUNG & Co. PUBLIC ACCOUNTANTS

1 August 2019
29 Dhul-Qi'dah 1440H

Jeddah

20/03/MQ

ABDUL LATIF JAMEEL UNITED FINANCE COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
For the three-month and six-month periods ended 30 June 2019

| | Notes | ***For the three-month period ended 30 June 2019 SR'000 Unaudited*** | *For the three-month period ended 30 June 2018 SR'000 Unaudited (Restated) (Note 19)* | ***For the six-month period ended 30 June 2019 SR'000 Unaudited*** | *For the six-month period ended 30 June 2018 SR'000 Unaudited (Restated) (Note 19)* |
|---|---|---|---|---|---|
| Revenues | 3 | **149,638** | 212,998 | **303,076** | 449,886 |
| Direct costs | 4 | **(55,684)** | (79,438) | **(93,078)** | (178,541) |
| **GROSS MARGIN** | | **93,954** | 133,560 | **209,998** | 271,345 |
| Net gain on derecognition of receivables | 13(c) | **108,586** | 63,654 | **181,709** | 163,419 |
| Net change in present value of assets and liabilities relating to derecognised receivables | 13(ii) | **(2,010)** | (8,463) | **(8,096)** | (17,617) |
| **TOTAL OPERATING INCOME** | | **200,530** | 188,751 | **383,611** | 417,147 |
| Selling and marketing expenses | | **(65,263)** | (88,076) | **(126,177)** | (175,391) |
| General and administrative expenses | | **(48,551)** | (46,727) | **(98,193)** | (100,800) |
| Reversal of impairment against lease and notes receivables | 6 & 7 | **5,737** | 8,972 | **27,426** | 37,980 |
| **TOTAL OPERATING EXPENSES** | | **(108,077)** | (125,831) | **(196,944)** | (238,211) |
| **INCOME FROM OPERATIONS, net** | | **92,453** | 62,920 | **186,667** | 178,936 |
| Finance charges | | **(3,326)** | (3,284) | **(6,746)** | (6,661) |
| Finance income | 10(a) | **24,677** | 17,994 | **54,815** | 33,732 |
| Other income | | **75** | 546 | **8,598** | 3,533 |
| **INCOME BEFORE ZAKAT** | | **113,879** | 78,176 | **243,334** | 209,540 |
| Zakat | 5 | **(26,510)** | (16,000) | **(35,510)** | (28,000) |
| **NET INCOME FOR THE PERIOD** | | **87,369** | 62,176 | **207,824** | 181,540 |
| **OTHER COMPREHENSIVE INCOME FOR THE PERIOD** | | | | | |
| *Items that may be reclassified to interim condensed statement of income:* | | | | | |
| Movement in fair value reserve relating to notes receivable carried at fair value through other comprehensive income | 7.1 | **1,799** | - | **(28,180)** | - |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | | **89,168** | 62,176 | **179,644** | 181,540 |
| **Basic and diluted earnings per share (expressed in SR per share)** | 12 | **0.51** | 0.37 | **1.22** | 1.07 |

The attached notes 1 to 21 form part of these unaudited interim condensed financial statements.

# INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION (UNAUDITED)
As at 30 June 2019

| | Notes | ***30 June 2019 SR'000 Unaudited*** | *31 December 2018 SR'000 Audited* | *1 January 2018 SR'000 Audited* |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **NON-CURRENT ASSETS** | | | | |
| Property and equipment | | **88,669** | 69,338 | 79,830 |
| Intangible assets | | **11,530** | 15,123 | 18,191 |
| Investment classified as fair value through other comprehensive income | | **893** | 893 | 893 |
| Net investment in finance lease | 6 | **651,113** | 776,124 | 1,275,118 |
| Notes receivable, carried at amortized cost | 7 | **10,918** | 14,775 | 312,277 |
| Notes receivable, carried at fair value through other comprehensive income | 7 | **158,455** | 423,594 | - |
| Other non-current assets | | **31,777** | 38,182 | 56,109 |
| **TOTAL NON-CURRENT ASSETS** | | **953,355** | 1,338,029 | 1,742,418 |
| **CURRENT ASSETS** | | | | |
| Net investment in finance lease | 6 | **396,253** | 503,390 | 498,327 |
| Notes receivable, carried amortized cost | 7 | **19,847** | 37,729 | 143,735 |
| Inventories | | **32,067** | 19,018 | 39,045 |
| Prepayments and other receivables | | **174,655** | 85,194 | 131,373 |
| Due from related parties | 9 | **2,762** | 11,371 | 29,942 |
| Cash and bank balances | 10 | **3,253,255** | 3,942,121 | 3,659,111 |
| **TOTAL CURRENT ASSETS** | | **3,878,839** | 4,598,823 | 4,501,533 |
| **TOTAL ASSETS** | | **4,832,194** | 5,936,852 | 6,243,951 |
| **SHAREHOLDERS' EQUITY AND LIABILITIES** | | | | |
| **SHAREHOLDERS' EQUITY** | | | | |
| Share capital | 1 | **1,700,000** | 1,700,000 | 1,700,000 |
| Statutory reserve | | **250,108** | 250,108 | 213,118 |
| Retained earnings | | **1,275,128** | 1,867,304 | 2,072,990 |
| Fair value reserve | 7.1 | **29,125** | 57,305 | - |
| Actuarial gains, net | | **46,864** | 46,864 | 45,832 |
| **TOTAL SHAREHOLDERS' EQUITY** | | **3,301,225** | 3,921,581 | 4,031,940 |
| **NON-CURRENT LIABILITIES** | | | | |
| Employee benefits liabilities | | **97,753** | 96,566 | 128,858 |
| Other non-current liabilities | 11 | **29,304** | 11,480 | 21,431 |
| **TOTAL NON-CURRENT LIABILITIES** | | **127,057** | 108,046 | 150,289 |
| **CURRENT LIABILITIES** | | | | |
| Accounts payable, accrued and other liabilities | 8 | **1,354,475** | 1,771,298 | 1,887,818 |
| Due to related parties | 9 | **49,437** | 135,927 | 173,904 |
| **TOTAL CURRENT LIABILITIES** | | **1,403,912** | 1,907,225 | 2,061,722 |
| **TOTAL LIABILITIES** | | **1,530,969** | 2,015,271 | 2,212,011 |
| **TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES** | | **4,832,194** | 5,936,852 | 6,243,951 |

The attached notes 1 to 21 form part of these unaudited interim condensed financial statements.

# INTERIM CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

For the six-month period ended 30 June 2019

| | *Note* | *Share capital SR'000* | *Statutory reserve SR'000* | *Retained earnings SR'000* | *Fair value reserve SR'000* | *Actuarial gains, net SR'000* | *Total SR'000* |
|---|---|---|---|---|---|---|---|
| Balance as at 1 January 2019 (audited) | | 1,700,000 | 250,108 | 1,867,304 | 57,305 | 46,864 | 3,921,581 |
| Net income for the period | | - | - | 207,824 | - | - | 207,824 |
| Movement in fair value reserve relating to notes receivable carried at fair value through other comprehensive income | 7.1 | - | - | - | (28,180) | - | (28,180) |
| Total comprehensive income for the period | | - | - | 207,824 | (28,180) | - | 179,644 |
| Dividend | 15 | - | - | (800,000) | - | - | (800,000) |
| **Balance as at 30 June 2019 (unaudited)** | | **1,700,000** | **250,108** | **1,275,128** | **29,125** | **46,864** | **3,301,225** |
| | | | | | | | |
| Balance as at 1 January 2018 | | 1,700,000 | 213,118 | 2,072,990 | - | 45,832 | 4,031,940 |
| Total comprehensive income for the period *(Restated - note 19)* | | - | - | 181,540 | - | - | 181,540 |
| Dividend | 15 | - | - | (235,200) | - | - | (235,200) |
| Balance as at 30 June 2018 (unaudited) | | 1,700,000 | 213,118 | 2,019,330 | - | 45,832 | 3,978,280 |

The attached notes 1 to 21 form part of these unaudited interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)

For the six-month period ended 30 June 2019

| | *Notes* | ***For the six-month period ended 30 June 2019 SR'000 Unaudited*** | *For the six-month period ended 30 June 2018 SR'000 Unaudited* |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Income before zakat | | **243,334** | 209,540 |
| *Adjustments to reconcile income before zakat for the period to net cash flows:* | | | |
| Depreciation and amortization | | **16,685** | 13,067 |
| Reversal of impairment against lease and notes receivables, net | 6 & 7 | **(22,307)** | (36,600) |
| Finance charges | | **6,746** | 6,661 |
| Finance income | | **(54,815)** | (33,732) |
| Net gain on derecognition of receivables | 13(c) | **(181,709)** | (163,419) |
| Net change in present value of assets and liabilities relating to derecognition of receivables | | **8,096** | 17,617 |
| Provision for onerous arrangements | 4 | **4,257** | 6,730 |
| Property and equipment written off | | **3,856** | - |
| Provision for employee benefits liabilities | | **5,674** | 12,357 |
| | | **29,817** | 32,221 |
| *Changes in operating assets and liabilities:* | | | |
| Net investment in finance lease | | **416,363** | 662,885 |
| Notes receivable | | **270,403** | (28,562) |
| Prepayments and other receivables and other non-current assets | | **(83,056)** | (160,007) |
| Inventories | | **(13,049)** | 4,530 |
| Due from related parties | | **8,609** | (9,753) |
| Accounts payable, accrued and other liabilities and other non-current liabilities | | **(184,221)** | (407,380) |
| Due to related parties | | **(86,471)** | 138,046 |
| Cash from operations | | **358,395** | 231,980 |
| Employees benefits liabilities paid | | **(4,506)** | (21,067) |
| Zakat paid | | **(64,647)** | (52,825) |
| Finance charges paid | | **(6,746)** | (6,661) |
| Net cash from operating activities | | **282,496** | 151,427 |
| **INVESTING ACTIVITIES** | | | |
| Purchase of property and equipment and intangibles, net | | **(1,892)** | (7,753) |
| Finance income received | | **54,815** | 33,732 |
| Other deposits | | **486,535** | (142,914) |
| Net cash from/(used in) investing activities | | **539,458** | (116,935) |
| **FINANCING ACTIVITY** | | | |
| Dividend paid | 15 | **(1,024,285)** | (235,200) |
| Cash used in financing activity | | **(1,024,285)** | (235,200) |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | | **(202,331)** | (200,708) |
| Cash and cash equivalents at the beginning of the period | | **2,065,364** | 2,513,962 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD** | 10 | **1,863,033** | 2,313,254 |
| **NON-CASH TRANSACTIONS:** | | | |
| Employee benefits liabilities transferred in during the period, net | | **19** | 85 |
| Movement in fair value reserve | 7.1 | **28,180** | - |
| Right-of-use assets | 2(e) | **34,387** | - |
| Impact of adoption of IFRS 9 | | - | 6,908 |

The attached notes 1 to 21 form part of these unaudited interim condensed financial statements.

## 1 ORGANIZATION AND ACTIVITIES

Abdul Latif Jameel United Finance Company (the "Company") is a Saudi Closed Joint Stock Company, initially registered in the Kingdom of Saudi Arabia as a Limited Liability Company under Commercial Registration number 4030206631, issued on 28 Dhul-Hijjah 1431H (corresponding to 4 December 2010).

The Company's head office is in Jeddah. The activities of the Company include finance leasing, financing of productive assets and consumer financing in the Kingdom of Saudi Arabia.

On 16 Safar 1436H (corresponding to 8 December 2014), the Company received a license from Saudi Arabian Monetary Authority (SAMA) to undertake activities of finance leasing, financing of productive assets and consumer financing in the Kingdom of Saudi Arabia under license number 28/AU/201412.

***a) Share capital of the Company***

As at 30 June 2019, 31 December 2018 and 1 January 2018, the share capital of the Company is owned as follows:

| | ***No. of shares of SR 10 Each*** | ***30 June 2019 Amount SR'000*** | *31 December 2018 Amount SR'000* | *1 January 2018 Amount SR'000* |
|---|---|---|---|---|
| | | ***Unaudited*** | *Audited* | *Audited* |
| Al Mumaizah United Commerce Company Limited | **150,450,000** | **1,504,500** | 1,504,500 | 1,504,500 |
| Altawfiq United Company | **17,000,000** | **170,000** | 170,000 | 170,000 |
| Taif First United Company Limited | **850,000** | **8,500** | 8,500 | 8,500 |
| Bader First United Company Limited | **850,000** | **8,500** | 8,500 | 8,500 |
| Najed Al Raeda United Company Limited | **850,000** | **8,500** | 8,500 | 8,500 |
| | **170,000,000** | **1,700,000** | 1,700,000 | 1,700,000 |

The Company is a subsidiary of Al Mumaizah United Commerce Company Limited (the "Parent Company"). The Ultimate Parent of the Company is United Instalment Sales Company Limited ("UIS" or "Ultimate Parent"). The Company, the Parent and the Ultimate Parent are wholly owned by Saudi shareholders.

***b) Insurance arrangement***

With effect from 1 January 2017, the Company entered into arrangements with Insurers for an initial period of six months, (renewed every six months) for three years. Upon each renewal, the premium rate, insurance charges and profit share was subject to be reviewed for any subsequent renewal period. As a result of this arrangement, the Company did not retain any insurance risk.

With effect from 1 January 2018, the Company has renewed the arrangements with certain amendments in the original agreements. The agreements are entered for an initial period of six months (renewed every six months) for 3 years. Upon renewal the premium rate, insurance charges and profit share may be reviewed for any subsequent renewal period. As a result of this arrangement, the Company does not retain any insurance risk. During the six-month period ended 30 June 2019, the Company renewed the arrangements with certain amendments in the original agreements with respect to premium rate, insurance charges and profit share.

***c) Branches of the Company***

As at 30 June 2019, the Company operates through 191 branches (31 December 2018: 235 branches). Certain branches are still registered in the name of UIS and are in the process of being transferred to the name of the Company. The accompanying interim condensed financial statements include the assets, liabilities and results of these branches as the beneficial owner of these branches is the Company.

## 2 BASIS OF PREPARATION

### a. Statement of compliance

The interim condensed financial statements of the Company as at and for the period ended 30 June 2019 have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34") as endorsed in the Kingdom of Saudi Arabia.

## 2 BASIS OF PREPARATION (continued)

### a. Statement of compliance (continued)

The financial statements of the Company as at and for the period and year ended 31 March 2019 and 31 December 2018, respectively, were prepared in compliance with IAS 34 and the International Financial Reporting Standards ("IFRS") respectively, as modified by SAMA for the accounting of zakat and income tax.

On 17 July 2019, SAMA instructed the finance companies in the Kingdom of Saudi Arabia to account for the zakat in the interim condensed 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.

Accordingly, the Company changed its accounting treatment for zakat by retrospectively adjusting the impact in line with International Accounting Standard 8 Accounting Policies, Changes in Accounting Estimates and Errors (as disclosed in note 2(f) and the effects of this change are disclosed in note 19 to the interim condensed financial statements).

Further, the Company has adopted IFRS 16 "Leases" from 1 January 2019 and accounting policies for the new standard are disclosed in the note 2(f). In preparing these interim condensed financial statements, the significant judgments made by management are the same as those that applied to the financial statements for the year ended 31 December 2018, except for as disclosed in notes 2(e) and 2(f) below.

### b. Basis of measurement

These interim condensed financial statements are prepared under the historical cost convention using accrual basis of accounting, except for the measurement at fair value of 'Investment classified as fair value through other comprehensive income' (FVOCI) and a segment of notes receivable portfolio which have been measured at their fair values.

### c. Functional and presentational currency

These interim condensed financial statements have been presented in Saudi Riyals, which is the functional and presentational currency of the Company and have been rounded off to the nearest thousand Saudi Riyals, except as otherwise indicated.

### d. Significant accounting judgments, estimates and assumptions

The preparation of the Company's interim condensed financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

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

The accounting estimates and assumptions used in the preparation of these interim condensed financial statements (as detailed below) are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2018, except for the changes in the accounting estimates as a result of adoption of IFRS 16 (as explained in note 2(f) below).

*Going concern*

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

*Determination of servicing liability*

As explained in note 13, under the purchase and agency agreements, the Company has been appointed by the banks to service the receivables purchased by the banks. Assumptions used to calculate the servicing asset / liability are based on estimates of collection costs to be incurred by the Company over the life of the purchase and agency agreements.

**2 BASIS OF PREPARATION (continued)**

**d. Significant accounting judgments, estimates and assumptions (continued)**

*Determination of expected defaults and discounts*
As also explained in note 13, in order to calculate the net deferred consideration receivable under the purchase and agency agreements, the Company uses assumptions to calculate the allowance for delinquent receivables and discounts for premature terminations of contracts based on historical trends which are updated periodically (at least once in a year or more frequently when needed) based on a change in circumstances which indicate that the historical rates may not be appropriate.

*Determination of discount rate for present value calculations*
Discount rates represent the current market assessment of the risks specific to each cash flow stream, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Company and is derived from recent market transactions and a market yields overview.

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

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

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

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

*Provision for outstanding and incurred but not reported claims*
Considerable judgment by management is required in the estimation of amounts due to contract holders arising from claims made under insurance contracts. Such estimates are necessarily based on significant assumptions about several factors involving varying, and possible significant, degrees of judgment and uncertainty. The actual results may differ from management's estimates resulting in future changes in estimated liabilities.

As mentioned in note 1(b), as the Company is not retaining any insurance risk, all claims including those incurred but not reported, are recovered from the Insurer.

*Provision for onerous arrangements*
The Company enters into certain insurance arrangements with the insurers for the insurance against physical damages arising from accidents to all leased vehicles (see note 1(b)). For such lease contracts, the insurance related inflows, being the collections from the customers, are fixed whereas the outflows, being the premiums paid to the insurers are renewed annually.

At each interim condensed statement of financial position date, the Company's management determines the best estimate of the future inflows and the related expected outflows over the period of the lease contract. In case the contracts are onerous, the provision for the onerous contracts is recognized. The actual results may differ from management's estimates resulting in future changes in estimated provision.

## 2 BASIS OF PREPARATION (continued)

### e. Impact of changes in accounting policies due to adoption of new standards

The accounting policies used in the preparation of these interim condensed financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31 December 2018 except for the adoption of new standards and amendments to existing standards mentioned below.

***IFRS 16 Leases***

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

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

The Company adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. The Company elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Company also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

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

| | ***1 January 2019 SR ('000) Unaudited*** |
|---|---|
| **Assets** | |
| Right of use assets classified under 'property and equipment' | 34,387 |
| Prepayments and other receivables | (1,828) |
| **Total assets** | 32,559 |
| **Liabilities** | |
| Accounts payable, accrued and other liabilities | 6,763 |
| Other non-current liabilities | 25,796 |
| **Total liabilities** | 32,559 |

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

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

*Leases previously accounted for as operating leases*

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

## 2 BASIS OF PREPARATION (continued)

### e. Impact of changes in accounting policies due to adoption of new standards (continued)

***IFRS 16 Leases (continued)***

The Company also applied the available practical expedients wherein it:

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

Based on the foregoing, as at 1 January 2019:

- Right-of-use assets of SR 34,387 thousands were recognized and presented within property and equipment in the interim condensed statement of financial position;
- Lease liabilities of SR 32,559 thousands were recognized and classified into current and non-current portions in “Accounts payable, accrued and other liabilities” and “Other non-current liabilities” respectively;
- Prepayments of SR 1,828 thousands were derecognized.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

| | ***SR (‘000) Unaudited*** |
|---|---|
| **Operating leases as of 31 December 2018** | 37,831 |
| Weighted average incremental borrowing rate as at 1 January 2019 | 6.49% |
| **Discounted operating lease commitments at 1 January 2019** | **32,798** |
| ***Less:*** | |
| Commitments relating to short-term leases | (239) |
| **Lease liabilities as at 1 January 2019** | 32,559 |

***Amendments to IFRS 9: Prepayment Features with Negative Compensation***

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

***Amendments to IAS 19: Plan Amendment, Curtailment or Settlement***

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

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

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

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

## 2. BASIS OF PREPARATION (continued)

### f. Significant accounting policies and estimates

The accounting policies, estimates and assumptions used in the preparation of these interim condensed financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2018, except for the policies explained below. Based on the adoption of new standards and interpretation as explained in note 2(e) which are applicable from 1 January 2019 and change in accounting treatment relating to zakat which is applied retrospectively, the following accounting policies are replacing / amending or adding to the corresponding accounting policies set out in audited financial statements for the year ended 31 December 2018.

***Significant accounting policies***

**Right-of-use assets**

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

**Lease Liabilities**

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

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

**Short-term leases and leases of low-value assets**

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

**Change in the accounting for zakat**

As mentioned in note 2(a), the basis of preparation has been changed for the period ended 30 June 2019 as a result of the issuance of latest instructions from SAMA dated 17 July 2019. Previously, zakat charge was recognized in the interim condensed statement of changes in shareholders' 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 shall be recognized in the interim condensed statement of income. The Company has accounted for this change in the accounting for zakat retrospectively and the effects of the above change are disclosed in note 19 to the interim condensed financial statements. The change has had no impact on the shareholders' equity and interim condensed statement of cash flows for the period ended 30 June 2018.

**Zakat**

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

## 2. BASIS OF PREPARATION (continued)

### f. Significant accounting policies and estimates (continued)

***Significant accounting estimates***

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

The Company has the option, under some of its leases to lease the assets for additional terms of three to five years. The Company applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy). The Company included the renewal period as part of the lease term for leases due to the significance of leased assets to its operations.

*Amounts recognised in the interim condensed statements of financial position and interim condensed statement of comprehensive income*

| | **Interim condensed statement of financial position** | |
|---|---|---|
| | ***Right-of-use asset SR'000*** | ***Lease liabilities SR'000*** |
| **As at 1 January 2019 (note 2(e))** | 34,387 | 32,559 |
| Depreciation expense (note(a) below) | (4,478) | - |
| Interest expense (note(a) below) | - | 815 |
| Payments made | - | (5,041) |
| **As at 30 June 2019** | **29,909** | **28,333** |

a) The Company recognised depreciation expense relating to right-of-use asset and interest expense relating to lease liabilities for the three-month and six-month periods ended 30 June 2019 under "selling and distribution expenses" and "finance charges", respectively.

b) As at 30 June 2019, right-of-use asset is recorded as part of property and equipment amounting to SR 29.91 million while non-current portion of lease liabilities has been classified under "other non-current liabilities" amounting to SR 21.18 million and current portion of lease liability under "accounts payable, accrued and other liabilities" amounting to SR 7.15 million.

## 3 REVENUES

| | ***For the three-month period ended 30 June 2019 SR'000 Unaudited*** | *For the three-month period ended 30 June 2018 SR'000 Unaudited* | ***For the six-month period ended 30 June 2019 SR'000 Unaudited*** | *For the six-month period ended 30 June 2018 SR'000 Unaudited* |
|---|---|---|---|---|
| Income from instalment sales | **46,386** | 97,670 | **82,210** | 181,857 |
| Income from finance leases | **40,153** | 33,285 | **89,683** | 100,213 |
| Contract fee income | **7,911** | 10,396 | **16,228** | 22,524 |
| Income from purchase and agency agreements (see note 13) | **55,188** | 71,647 | **114,955** | 145,292 |
| | **149,638** | 212,998 | **303,076** | 449,886 |

## 4 DIRECT COSTS

| | ***For the three-month period ended 30 June 2019 SR'000 Unaudited*** | *For the three-month period ended 30 June 2018 SR'000 Unaudited* | ***For the six-month period ended 30 June 2019 SR'000 Unaudited*** | *For the six-month period ended 30 June 2018 SR'000 Unaudited* |
|---|---|---|---|---|
| Direct cost on instalment sales | **39,992** | 78,115 | **66,486** | 143,980 |
| Direct cost on finance leases | **12,890** | 9,495 | **22,335** | 27,831 |
| Charge / (reversal) for provision for onerous insurance arrangements | **2,802** | (8,172) | **4,257** | 6,730 |
| | **55,684** | 79,438 | **93,078** | 178,541 |

## 5 ZAKAT

During the period ended 30 June 2019, an amount of SR 35.51 million has been recorded as zakat charge in the interim condensed statement of income (30 June 2018: SR 28 million) and an amount of SR 64.65 (30 June 2018: SR 52.83 million) has been paid to the GAZT.

**Status of zakat assessments**
For the year 2012, the GAZT issued an assessment claiming additional zakat of SR 27.6 million against which the Company filed an objection, which was not accepted by the GAZT, therefore, the Company requested that the objection be forwarded to the Preliminary Objection Committee. However, the Company has retracted the objection and settled the above amount. The zakat declaration for the year 2013 is currently under review by the GAZT and the declarations for the years 2014 to 2018 have been finalized. Further, the Company has a zakat certificate valid up to 30 April 2020.

## 6 NET INVESTMENT IN FINANCE LEASE

| | ***30 June 2019 SR'000 Unaudited*** | *31 December 2018 SR'000 Audited* | *1 Janury 2018 SR'000 Audited* |
|---|---|---|---|
| Gross investment in finance lease | **1,538,745** | 1,781,742 | 2,408,502 |
| Less: unearned finance income | **(282,006)** | (310,442) | (456,509) |
| | **1,256,739** | 1,471,300 | 1,951,993 |
| Less: allowance for doubtful debts (see note a) | **(209,373)** | (191,786) | (178,548) |
| Net investment in finance lease | **1,047,366** | 1,279,514 | 1,773,445 |

| | ***30 June 2019 (Unaudited)*** | | | |
|---|---|---|---|---|
| | *Gross Investment SR'000* | *Unearned finance income SR'000* | *Allowance for doubtful debts SR'000* | ***Net Investment SR'000*** |
| Current portion | 737,363 | (131,737) | (209,373) | **396,253** |
| Non-current portion | 801,382 | (150,269) | - | **651,113** |
| **Total** | **1,538,745** | **(282,006)** | **(209,373)** | **1,047,366** |

| | *31 December 2018 (Audited)* | | | |
|---|---|---|---|---|
| | *Gross Investment SR'000* | *Unearned finance income SR'000* | *Allowance for doubtful debts SR'000* | *Net Investment SR'000* |
| Current portion | 840,929 | (145,753) | (191,786) | 503,390 |
| Non-current portion | 940,813 | (164,689) | - | 776,124 |
| **Total** | 1,781,742 | (310,442) | (191,786) | 1,279,514 |

| | *1 January 2018 (Audited)* | | | |
|---|---|---|---|---|
| | *Gross Investment SR'000* | *Unearned finance income SR'000* | *Allowance for doubtful debts SR'000* | *Net Investment SR'000* |
| Current portion | 872,094 | (195,219) | (178,548) | 498,327 |
| Non-current portion | 1,536,408 | (261,290) | - | 1,275,118 |
| **Total** | 2,408,502 | (456,509) | (178,548) | 1,773,445 |

## 6 NET INVESTMENT IN FINANCE LEASE (continued)

a) The movement in allowance for doubtful debts is as follows:

| | ***For the six-month period ended 30 June 2019 SR'000 Unaudited*** | *For the six-month period ended 30 June 2018 SR '000 Unaudited* |
|---|---|---|
| At the beginning of the period | **191,786** | 178,548 |
| Reversals during the period | **(15,671)** | (42,204) |
| Recoveries from bad debts previously written off | **5,069** | 1,367 |
| Provision transferred on closure of 'purchase and agency agreements' (see note 13 (c)) | **28,189** | 27,614 |
| At the end of the period | **209,373** | 165,325 |

b) The ageing of gross finance lease receivables which are past due and considered impaired by the management is as follows:

| | ***30 June 2019 SR'000 Unaudited*** | *31 December 2018 SR'000 Audited* | *1 January 2018 SR'000 Audited* |
|---|---|---|---|
| 1 – 3 months | **42,165** | 36,366 | 51,135 |
| 4 – 6 months | **23,253** | 24,631 | 25,719 |
| 7 – 12 months | **31,362** | 44,995 | 32,016 |
| More than 12 months | **64,445** | 28,305 | 20,366 |
| | **161,225** | 134,297 | 129,236 |

The not yet due portion of above overdue finance lease receivables as of 30 June 2019 amounts to SR 585,787 thousands (31 December 2018: SR 484,769 thousands) (1 January 2018: SR 444,343 thousands).

## 7 NOTES RECEIVABLE

Notes receivable comprise of receivables arising from instalment sales of equipment and vehicles. For the purposes of these interim condensed financial statements, the notes receivable pertaining to instalment sale of vehicles have been carried at fair value through other comprehensive income (see note 7.1) and notes receivable pertaining to instalment sales of equipment have been carried at amortized cost (see note 7.2), as detailed below:

| | ***30 June 2019 SR'000 Unaudited*** | *31 December 2018 SR'000 Audited* | *1 January 2018 SR'000 Audited* |
|---|---|---|---|
| Notes receivable carried at fair value through other comprehensive income (note 7.1 below) | **158,455** | 423,594 | - |
| Notes receivable carried at amortized cost (note 7.2 below) | **30,765** | 52,504 | 456,012 |

## 7 NOTES RECEIVABLE (continued)

### 7.1 Notes receivable carried at fair value through other comprehensive income

As at 30 June 2019, the amortised cost of notes receivable measured at fair value through other comprehensive income was SR 129.4 million, whereas the fair value of this portfolio was determined to be SR 158.5 million resulting in fair value gain of SR 29.1 million. The changes in the fair value during the six-month period ended 30 June 2019 of SR 28.2 million is recognised in the 'interim condensed statement of other comprehensive income'.

During the six-month period 30 June 2019, the Company has sold portion of these notes receivables to local banks (see note 13). On derecognition, the difference between the carrying amount of the notes receivables derecognized and the sum of (i) the consideration received; and (ii) any cumulative gain or loss that had been previously recognised in 'other comprehensive income' is recognized to the 'interim condensed statement of income'.

Revenues and derecogntion gains from this portfolio are recognised in the 'interim condensed statement of income'.

The movement in allowance for doubtful debts against notes receivable carried at fair value through other comprehensive income is as follows:

| | ***For the six-month period ended 30 June 2019 SR'000 Unaudited*** |
|---|---|
| At the beginning of the period | **32,695** |
| Reversal during the period | **(11,193)** |
| Recoveries from bad debts previously written off | **50** |
| Amount transferred on closure of 'purchase and agency agreements' (see note 13 (c)) | **211** |
| At the end of the period | **21,763** |

### 7.2 Notes receivable, carried at amortized cost

| | ***30 June 2019 SR'000 Unaudited*** | *31 December 2018 SR'000 Audited* | *1 Janury 2018 SR'000 Audited* |
|---|---|---|---|
| Notes receivable, gross | **37,951** | 61,652 | 590,876 |
| Less: unearned finance income | **(3,857)** | (5,257) | (123,531) |
| | **34,094** | 56,395 | 467,345 |
| Less: allowance for doubtful debts (see note a) | **(3,329)** | (3,891) | (11,333) |
| Notes receivable, net | **30,765** | 52,504 | 456,012 |

| | ***30 June 2019 (Unaudited)*** | | | |
|---|---|---|---|---|
| | ***Gross investment SR in 000*** | ***Unearned finance income SR in 000*** | ***Allowance for doubtful debts SR in 000*** | ***Net Investment SR in 000*** |
| Current portion | 26,169 | (2,993) | (3,329) | **19,847** |
| Non-current portion | 11,782 | (864) | - | **10,918** |
| **Total** | **37,951** | **(3,857)** | **(3,329)** | **30,765** |

**7 NOTES RECEIVABLE (continued)**

**7.2 Notes receivable, carried at amortized cost (continued)**

| | *31 December 2018 (Audited)* | | | |
|---|---|---|---|---|
| | *Gross Investment SR in 000* | *Unearned finance income SR in 000* | *Allowance for doubtful debts SR in 000* | *Net Investment SR in 000* |
| Current portion | 45,557 | (3,937) | (3,891) | 37,729 |
| Non-current portion | 16,095 | (1,320) | - | 14,775 |
| **Total** | 61,652 | (5,257) | (3,891) | 52,504 |

| | *1 January 2018 (Audited)* | | | |
|---|---|---|---|---|
| | *Gross Investment SR'000* | *Unearned finance income SR'000* | *Allowance for doubtful debts SR'000* | *Net Investment SR'000* |
| Current portion | 215,646 | (60,578) | (11,333) | 143,735 |
| Non-current portion | 375,230 | (62,953) | - | 312,277 |
| **Total** | 590,876 | (123,531) | (11,333) | 456,012 |

a) The movement in allowance for doubtful debts is as follows:

| | ***For the six-month period ended 30 June 2019 SR'000 Unaudited*** | *For the six-month period ended 30 June 2018 SR'000 Unaudited* |
|---|---|---|
| At the beginning of the period | **3,891** | 11,333 |
| (Reversal)/charge during the period | **(562)** | 4,224 |
| Recoveries from bad debts previously written off | - | 13 |
| Amount transferred on closure of 'purchase and agency agreements' (see note 13 (c)) | - | 24 |
| At the end of the period | **3,329** | 15,594 |

b) The ageing of notes receivables which are past due and considered impaired by the management is as follows:

| | ***30 June 2019 SR'000 Unaudited*** | *31 December 2018 SR'000 Audited* | *1 January 2018 SR'000 Audited* |
|---|---|---|---|
| 1 – 3 months | **4,754** | 6,068 | 3,541 |
| 4 – 6 months | **3,128** | 2,459 | 887 |
| 7 – 12 months | **3,507** | 2,368 | 784 |
| More than 12 months | **2,958** | 1,511 | 584 |
| | **14,347** | 12,406 | 5,796 |

The not yet due portion of above overdue notes receivables as of 30 June 2019 amounts to SR 47,481 thousands (31 December 2018: SR 108,455 thousands) (1 January 2018: SR 70,283 thousands).

## 8 ACCOUNTS PAYABLE, ACCRUED AND OTHER LIABILITIES

| | ***30 June 2019 SR'000 Unaudited*** | *31 December 2018 SR'000 Audited* | *1 January 2018 SR'000 Audited* |
|---|---|---|---|
| Accounts payable – trade | **42,261** | 28,265 | 107,396 |
| Accrued expenses and zakat payable (see note 5) | **136,805** | 160,871 | 134,030 |
| Payable under purchase and agency agreements (see note 13(b)) | **258,845** | 428,089 | 627,326 |
| Present value of net servicing liability – current portion (see note 13c(ii)) | **29,379** | 32,723 | 39,738 |
| Provision for expected defaults and discounts under purchase and agency agreements (see note 13(c)(i)) | **723,173** | 712,584 | 773,313 |
| Amount due to insurer | **5,106** | 27,552 | 30,467 |
| Current portion of lease liabilities (see note 2(d)) | **7,152** | - | - |
| Provision for onerous arrangement (see note below) | **12,865** | 8,608 | - |
| Dividend payable (note 15) | - | 224,285 | - |
| Advance collections and other payables | **138,889** | 148,321 | 175,548 |
| | **1,354,475** | 1,771,298 | 1,887,818 |

The movement in the provision for onerous insurance arrangements is as follows:

| | ***For the six-month period ended 30 June 2019 SR '000 Unaudited*** | *For the six-month period ended 30 June 2018 SR '000 Unaudited* |
|---|---|---|
| At the beginning of the period | **8,608** | - |
| Charge for the period (see note 4) | **4,257** | 6,730 |
| At the end of period | **12,865** | 6,730 |

## 9 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent associated companies, major shareholders, directors and key management personnel of the Company, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Company's management.

i) Following are the details of related party transactions during the period:

| **Related party** | **Nature of transaction** | ***For the three-month period ended 30 June 2019 SR'000 Unaudited*** | *For the three-month period ended 30 June 2018 SR'000 Unaudited* | ***For the six-month period ended 30 June 2019 SR'000 Unaudited*** | *For the six-month period ended 30 June 2018 SR'000 Unaudited* |
|---|---|---:|---:|---:|---:|
| Ultimate Parent | Purchases | - | 62 | - | 358 |
| | Collections from Company's customers | **59** | 150 | **108** | 396 |
| Other related parties | Purchases, net | **288,644** | 476,686 | **596,755** | 1,034,625 |
| | Advertisement expenses | **459** | 604 | **1,029** | 1,063 |
| | Expenses charged | **9,602** | 12,162 | **19,656** | 23,114 |
| | Sales commission | - | - | - | 2,113 |
| | Supports received | **13,416** | 53,716 | **30,808** | 143,470 |
| | Charges for customer evaluations - prior to lease | **1,737** | 2,128 | **3,875** | 4,543 |
| | Amounts collected on behalf of an affiliate | **2,159** | 5,408 | **5,785** | 9,336 |

ii) Due from related parties comprised the following:

| | ***30 June 2019 SR '000 Unaudited*** | *31 December 2018 SR '000 Audited* | *1 January 2018 SR '000 Audited* |
|---|---:|---:|---:|
| Abdul Latif Jameel Import and Distribution Company | **2,759** | 8,677 | 28,862 |
| Mohammed Abdul Latif Jameel Company Limited | **3** | - | - |
| Abdul Latif Jameel Insurance Agency Company | - | 581 | - |
| Abdul Latif Jameel Summit Company Limited | - | 1 | 195 |
| Abdul Latif Jameel Bodywork and Paint Company Limited | - | 920 | 492 |
| Bab Rizq Jameel Micro Finance Company (A Saudi Closed Joint Stock Company) | - | 581 | - |
| Abdul Latif Jameel Technology Products Company Limited | - | 493 | - |
| Abdul Latif Jameel Insurance Brokerage Company (A Limited Liability Company) | - | 118 | - |
| United Instalment Sales Company Limited ("Ultimate Parent") | - | - | 393 |
| | **2,762** | 11,371 | 29,942 |

**9 RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

iii) Due to related parties comprised the following:

| | ***30 June 2019 SR '000 Unaudited*** | *31 December 2018 SR '000 Audited* | *1 January 2018 SR '000 Audited* |
|---|---|---|---|
| Abdul Latif Jameel Retail Company Limited | **35,282** | 115,802 | 52,134 |
| Salim Saleh Saeed Babqui Trading Company Limited | **8,603** | 15,725 | 17,872 |
| Abdul Latif Jameel Company Limited | **1,780** | 1,697 | 1,844 |
| Abdul Latif Jameel Technology Products Company Limited | **1,352** | - | 5,593 |
| Abdul Latif Jameel Lands Company Limited | **1,025** | 891 | 331 |
| Abdul Latif Jameel Company for Information and Services Limited | **659** | 1,064 | 1,113 |
| Abdul Latif Jameel Industrial Equipment Company | **390** | - | - |
| United Instalment Sales Company Limited ("Ultimate Parent") | **215** | 613 | - |
| Abdul Latif Jameel Bodywork and Paint Company Limited | **54** | - | - |
| Abdul Latif Jameel for Advertising Services Company Limited | **52** | 52 | 113 |
| Abdul Latif Jameel United Real Estate Finance Company (A Saudi Closed Joint Stock Company) | **22** | 22 | 22 |
| Abdul Latif Jameel Summit Company Limited | **3** | - | - |
| Abdul Latif Jameel Automotive Wholesale Company Limited | - | - | 94,882 |
| Al Mumaizah United Commerce Company Limited | - | 61 | - |
| | **49,437** | 135,927 | 173,904 |

iv) The total amount of compensation to key management personnel during the period is as follows:

| | ***For the three-month period ended 30 June 2019 SR'000 Unaudited*** | *For the three-month period ended 30 June 2018 SR'000 Unaudited* | ***For the six-month period ended 30 June 2019 SR'000 Unaudited*** | *For the six-month period ended 30 June 2018 SR'000 Unaudited* |
|---|---|---|---|---|
| Directors' remuneration | 983 | 1,019 | 1,910 | 2,038 |
| Short-term employee benefits | 3,000 | 3,000 | 6,000 | 6,000 |
| Employee benefits liabilities | 77 | 105 | 154 | 210 |
| | **4,060** | 4,124 | **8,064** | 8,248 |

The Company's Board of Directors includes the Board and other Board related committees (Credit and Risk Management Committee and Audit Committee).

## 10 CASH AND BANK BALANCES

| | ***30 June 2019 SR '000 Unaudited*** | *31 December 2018 SR '000 Audited* | *1 January 2018 SR '000 Audited* |
|---|---|---|---|
| Cash in hand | **12,571** | 11,652 | 22,243 |
| Bank balances (see note below) | **1,850,462** | 2,053,712 | 2,491,719 |
| Cash and cash equivalents | **1,863,033** | 2,065,364 | 2,513,962 |
| Other deposits (having original maturity of more than three months) | **1,390,222** | 1,876,757 | 1,145,149 |
| Cash and bank balances | **3,253,255** | 3,942,121 | 3,659,111 |

a) During the period, the Company earned SR 54.82 million (30 June 2018: SR 33.73 million) on the murabaha deposits at the rate of return ranging from 2.30% to 3.55% (30 June 2018: 1.11% to 2.90%).

b) At 30 June 2019, cash and bank balances include murabaha deposits of SR 97.5 million (31 December 2018: SR 107.6 million) (1 January 2018: SR 149.1 million), representing amounts set aside in respect of employees benefits liabilities.

c) Other deposits include foreign currency time deposits held with the local banks, equivalent of SR 1,190 million (31 December 2018: 1,169 million) (1 January 2018: SR 1,145 million), having original maturity of more than three months.

## 11 OTHER NON-CURRENT LIABILITIES

| | ***30 June 2019 SR '000 Unaudited*** | *31 December 2018 SR '000 Audited* | *1 January 2018 SR '000 Audited* |
|---|---|---|---|
| Present value of net servicing liability – non-current portion (note 13c(ii)) | **8,123** | 11,480 | 21,431 |
| Lease liabilities – non-current portion (note 2(f)) | **21,181** | - | - |
| | **29,304** | 11,480 | 21,431 |

## 12 EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing the net income for the period attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the period. The calculation of diluted earnings per share is not applicable to the Company.

The basic and diluted earnings per share are calculated as follows:

| | ***For the three-month period ended 30 June 2019 SR'000 Unaudited*** | *For the three-month period ended 30 June 2018 SR'000 Unaudited (Restated) (Note 19)* | ***For the six-month period ended 30 June 2019 SR'000 Unaudited*** | *For the six-month period ended 30 June 2018 SR'000 Unaudited (Restated) (Note 19)* |
|---|---|---|---|---|
| Net income for the period *(in SR '000)* | **87,369** | 62,176 | **207,824** | 181,540 |
| Weighted average number of ordinary shares *(in'000)* (see note 1(a)) | **170,000** | 170,000 | **170,000** | 170,000 |
| Basic and diluted earnings per share (SR per share) | **0.51** | 0.37 | **1.22** | 1.07 |

## 13 PURCHASE AND AGENCY AGREEMENTS

The Company has entered into purchase and agency agreements (the 'agreements') with certain local banks in respect of certain finance lease and notes receivables (collectively referred as 'receivables').

Under the terms of the purchase and agency agreements, the Company first sells the eligible receivables to the banks and then manages them on behalf of the banks as an agent for a monthly fee as per the terms of the agreements.

During the six-month period ended 30 June 2019, the Company sold SR 1,528 million (30 June 2018: SR 1,954 million) of its net receivables and the total amount received from the bank in respect of such sale was SR 1,649 million (30 June 2018: SR 2,061 million). Upon sale, the Company derecognises the receivables from its books and recognises the difference as either gain or loss on derecognition of receivables (see note c).

The following are the significant terms of the agreement:

a) The Company continues to manage the sold receivables on behalf of the banks for a fee (agency fee). The total settlement of net receivables to be made to the banks (as per the agreed cash flows), as an agent under purchase and agency arrangements amount to SR 8,772 million as of 30 June 2019 (31 December 2018: SR 9,963 million) (1 January 2018: SR 12,959 million).

The maturity analysis of derecognised receivables is as follows:

| *Under purchase and agency agreements* | *Upto 1 year SR'000* | *2 – 3 years SR'000* | *After 3 years SR'000* | *Total SR'000* |
|---|---|---|---|---|
| **30 June 2019 *(Unaudited)*** | **4,352,035** | **3,371,120** | **1,048,345** | **8,771,500** |
| 31 December 2018 *(Audited)* | 4,886,190 | 3,860,675 | 1,216,576 | 9,963,441 |
| 1 January 2018 (*Audited*) | 5,950,853 | 5,993,287 | 1,015,328 | 12,959,468 |

b) Each agreement is supported by a "cash flow statement" which stipulates the principal amount and the monthly receivables falling due. Under the terms of the agreements, the Company, in the capacity of an agent, settles to the banks a monthly amount based on the cash flow statement. Any excess collections over and above the stipulated amounts and after retaining the amount for the next month's repayment, are transferred monthly by the Company to the banks. The amount of the next month's repayment is recognised as a liability and included in payable under purchase and agency agreements (see note 8).

c) A reserve is to be maintained out of the monthly receipts, which is to be distributed at the end of the term of the agreements after deducting the actual defaults and discounts due to premature terminations. The balance in the reserve account after deducting the actual defaults and discounts shall be retained by the Company as deferred consideration on sale of receivables. Any shortfall in the reserve account is to be borne by the banks.

**13 PURCHASE AND AGENCY AGREEMENTS (continued)**

During the six-month period ended 30 June 2019, the Company made gain amounting to SR 129.4 million (30 June 2018: SR 117.1 million) on derecognition of receivables sold to the banks under the agreements, which is calculated as follows:

| | ***For the three-month period ended 30 June 2019 SR'000 Unaudited*** | *For the three-month period ended 30 June 2018 SR'000 Unaudited* | ***For the six-month period ended 30 June 2019 SR'000 Unaudited*** | *For the six-month period ended 30 June 2018 SR'000 Unaudited* |
|---|---|---|---|---|
| Gross amount of receivables | **764,811** | 1,192,626 | **1,955,123** | 2,478,385 |
| Less: deferred finance income | **(177,764)** | (249,685) | **(427,036)** | (523,912) |
| Less: present value of net servicing liability (see note ii) | **(3,315)** | (2,306) | **(8,520)** | (10,568) |
| Less: amounts received from the banks | **(644,000)** | (989,000) | **(1,649,000)** | (2,061,000) |
| Net gain on derecognition of receivables | **60,268** | 48,365 | **129,433** | 117,095 |

During the six-month period ended 30 June 2019, certain purchase and agency agreements, previously entered into by the Company, have matured and the Company has recorded a net gain amounting to SR 52.3 million (30 June 2018: SR 46.3 million) after deducting the actual customer defaults and discounts on premature terminations. The company is in process of obtaining final settlement and discharge letters from the banks with respect to these agreements.

The total gain on derecognized receivables for the period is as follows:

| | ***For the three-month period ended 30 June 2019 SR'000 Unaudited*** | *For the three-month period ended 30 June 2018 SR'000 Unaudited* | ***For the six-month period ended 30 June 2019 SR'000 Unaudited*** | *For the six-month period ended 30 June 2018 SR'000 Unaudited* |
|---|---|---|---|---|
| Gain on derecognition of receivables | **60,268** | 48,365 | **129,433** | 117,095 |
| Gain on maturity of derecognized pools upon maturity | **48,318** | 15,289 | **52,276** | 46,324 |
| | **108,586** | 63,654 | **181,709** | 163,419 |

**13 PURCHASE AND AGENCY AGREEMENTS (continued)**

i. The present value of deferred consideration receivable is calculated by deducting the present value of expected defaults and discounts to be incurred over the life of the agreements from the present value of reserve amount to be received per the cash flow statement. This represents the net deferred consideration receivable by the Company under the agreements, calculated as follows:

| | ***30 June 2019 SR'000 Unaudited*** | *31 December 2018 SR'000 Audited* | *1 January 2018 SR '000 Audited* |
|---|---|---|---|
| Present value of deferred consideration receivable | **424,990** | 482,601 | 630,331 |
| Less: provision against expected defaults in respect of sold finance lease and notes receivable | **(424,990)** | (482,600) | (630,299) |
| | - | 1 | 32 |
| Less: current portion | - | (1) | (32) |
| Non-current portion | - | - | - |

As on 30 June 2019, for the expired period of the agreed cash flows under the purchase and agency agreement, the Company has made provision for expected defaults and early termination of SR 723.2 million (31 December 2018: SR 712.6 million) (1 January 2018: SR 773.3 million) (see note 8)

ii. The Company's net servicing assets and related liabilities are calculated separately for each agreement by calculating the present value of servicing assets, as per the terms of the agreement and by estimating the present value of servicing liability and related provisions. The net amount is classified as a net servicing asset or a net servicing liability on the interim condensed statement of financial position. This has been presented as follows:

| | ***30 June 2019 SR'000 Unaudited*** | *31 December 2018 SR'000 Audited* | *1 January 2018 SR '000 Audited* |
|---|---|---|---|
| Present value of net servicing assets – non current | **22,447** | 28,808 | 45,009 |
| Present value of net servicing liability | **37,502** | 44,203 | 61,169 |
| Less: current portion (note 8) | **(29,379)** | (32,723) | (39,738) |
| Non-current portion (see note 11) | **8,123** | 11,480 | 21,431 |

The present value of net deferred consideration receivable and the present value of net servicing asset and net servicing liability is calculated by using the appropriate discount rate (see note 2(d)).

## 14 FINANCIAL RISK MANAGEMENT

***Credit Risk***

**Credit quality analysis**

**i) Financial assets carried at fair value through other comprehensive income (FVOCI)**

The following tables set out information about the credit quality of financial assets measured at fair value through other comprehensive income as at 30 June 2019 and 31 December 2018. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

**a) Gross carrying amounts**

| | ***30 June 2019 (Unaudited)*** | | | |
|---|---|---|---|---|
| | ***12 month ECL SR '000*** | ***Lifetime ECL not credit impaired SR '000*** | ***Lifetime ECL credit impaired SR '000*** | ***Total SR '000*** |
| Notes receivable carried at fair value through other comprehensive income | **124,376** | **5,793** | **28,286** | **158,455** |

| | *31 December 2018 (Audited)* | | | |
|---|---|---|---|---|
| | *12 month ECL SR '000* | *Lifetime ECL not credit impaired SR '000* | *Lifetime ECL credit impaired SR '000* | *Total SR '000* |
| Notes receivable carried at fair value through other comprehensive income | 376,053 | 20,609 | 26,932 | 423,594 |

**b) Allowance for ECL**

| | ***30 June 2019 (Unaudited)*** | | | |
|---|---|---|---|---|
| | ***12 month ECL SR '000*** | ***Lifetime ECL not credit impaired SR '000*** | ***Lifetime ECL credit impaired SR '000*** | ***Total SR '000*** |
| Notes receivable carried at fair value through other comprehensive income | **4,214** | **825** | **16,724** | **21,763** |

| | *31 December 2018 (Audited)* | | | |
|---|---|---|---|---|
| | *12 month ECL SR '000* | *Lifetime ECL not credit impaired SR '000* | *Lifetime ECL credit impaired SR '000* | *Total SR '000* |
| Notes receivable carried at fair value through other comprehensive income | 13,311 | 3,261 | 16,123 | 32,695 |

**14 FINANCIAL RISK MANAGEMENT (continued)**

***Credit Risk (continued)***

**Credit quality analysis (continued)**

**ii) Financial assets, carried at amortized cost**

The following tables set out information about the credit quality of financial assets measured at amortised cost as at 30 June 2019, 31 December 2018 and 1 January 2018. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

**a) Gross carrying amounts**

| | ***30 June 2019 (Unaudited)*** | | | |
|---|---|---|---|---|
| | ***12 month ECL*** | ***Lifetime ECL not credit impaired*** | ***Lifetime ECL credit impaired*** | ***Total*** |
| | ***SR '000*** | ***SR '000*** | ***SR '000*** | ***SR '000*** |
| Net investment in finance lease | 1,335,397 | 51,074 | 152,274 | **1,538,745** |
| Notes receivable carried at amortized cost | 32,468 | 2,078 | 3,405 | **37,951** |
| Carrying amount | **1,367,865** | **53,152** | **155,679** | **1,576,696** |

| | *31 December 2018 (Audited)* | | | |
|---|---|---|---|---|
| | *12 month ECL* | *Lifetime ECL not credit impaired* | *Lifetime ECL credit impaired* | *Total* |
| | *SR '000* | *SR '000* | *SR '000* | *SR '000* |
| Net investment in finance lease | 1,605,085 | 39,354 | 137,303 | 1,781,742 |
| Notes receivable, carried at amortized cost | 56,555 | 1,702 | 3,395 | 61,652 |
| Carrying amount | 1,661,640 | 41,056 | 140,698 | 1,843,394 |

| | *1 January 2018 (Audited)* | | | |
|---|---|---|---|---|
| | *12 month ECL* | *Lifetime ECL not credit impaired* | *Lifetime ECL credit impaired* | *Total* |
| | *SR '000* | *SR '000* | *SR '000* | *SR '000* |
| Net investment in finance lease | 2,277,861 | 31,445 | 99,196 | 2,408,502 |
| Notes receivable | 553,375 | 22,013 | 15,488 | 590,876 |
| Carrying amount | 2,831,236 | 53,458 | 114,684 | 2,999,378 |

**b) Allowance for ECL**

| | ***30 June 2019 (Unaudited)*** | | | |
|---|---|---|---|---|
| | ***12 month ECL*** | ***Lifetime ECL not credit impaired*** | ***Lifetime ECL credit impaired*** | ***Total*** |
| | ***SR '000*** | ***SR '000*** | ***SR '000*** | ***SR '000*** |
| Net investment in finance lease | 50,097 | 15,142 | 144,134 | **209,373** |
| Notes receivable, carried at amortized cost | 891 | 276 | 2,162 | **3,329** |
| | **50,988** | **15,418** | **146,296** | **212,702** |

**14 FINANCIAL RISK MANAGEMENT (continued)**

***Credit Risk (continued)***

**Credit quality analysis (continued)**

**ii) Financial assets, carried at amortized cost (continued)**

**b) Allowance for ECL (continued)**

| | *31 December 2018 (Audited)* | | | |
|---|---|---|---|---|
| | *12 month ECL* | *Lifetime ECL not credit impaired* | *Lifetime ECL credit impaired* | *Total* |
| | *SR '000* | *SR '000* | *SR '000* | *SR '000* |
| Net investment in finance lease | 52,536 | 10,407 | 128,843 | 191,786 |
| Notes receivable, carried at amortized cost | 1,404 | 244 | 2,243 | 3,891 |
| | 53,940 | 10,651 | 131,086 | 195,677 |

| | *1 January 2018 (Audited)* | | | |
|---|---|---|---|---|
| | *12 month ECL* | *Lifetime ECL not credit impaired* | *Lifetime ECL credit impaired* | *Total* |
| | *SR '000* | *SR '000* | *SR '000* | *SR '000* |
| Net investment in finance lease | 48,443 | 9,661 | 120,444 | 178,548 |
| Notes receivable | 1,829 | 2,167 | 7,337 | 11,333 |
| | 50,272 | 11,828 | 127,781 | 189,881 |

The allowance for ECL for net investment in finance lease also includes the Expected Credit Losses on insurance, which the Company arranges on behalf of the customers.

**Amounts arising from ECL – Significant increase in credit risk**
When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and expert credit assessment and including forward-looking information. The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure based on approved stages of criteria.

**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.

**14 FINANCIAL RISK MANAGEMENT (continued)**

***Credit Risk (continued)***

**Credit quality analysis (continued)**

**a) Generating the term structure of PD**

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Company collects performance and default information about its credit risk exposures analyzed by type of product and borrower as well as by credit risk grading. For some portfolios, information obtained from external credit reference agencies is also used.

The Company employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and macro-economic factors include oil prices, inflation, manufacturing purchasing manager’s index, money supply etc. For exposures to specific industries and/or regions, the analysis may extend to relevant commodity and/or real estate prices.

Based on external actual and forecast information, the Company formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios (see discussion below on incorporation of forward-looking information). The Company then uses these forecasts to adjust its estimates of PDs.

**b) Determining whether credit risk has increased significantly**

The criteria for determining whether credit risk has increased significantly include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

The credit risk of a particular exposure is deemed to have increased significantly since initial recognition, which is determined under basis of Company’s staging criteria.

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

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

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

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

**c) Modified financial assets**

The contractual terms of finance lease and notes receivables 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 financing and advances whose terms have been modified may be derecognised and the renegotiated financing and advances recognised as a new financing and advances at fair value in accordance with the accounting policy.

When the terms of finance lease and notes receivables are modified and the modification does not result in de-recognition, the determination of whether the asset's credit risk has increased significantly is completed on the basis of the approved staging criteria.

The Company renegotiates finance lease and notes receivables to customers in financial difficulties (referred to as 'forbearance activities' to maximize collection opportunities and minimize the risk of default. Under the Company's forbearance policy, finance lease and notes receivable forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

**14 FINANCIAL RISK MANAGEMENT (continued)**

***Credit Risk (continued)***

**Credit quality analysis (continued)**

**c) Modified financial assets (continued)**
The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of leasing and instalments covenants. Both consumer and corporate portfolios are subject to the forbearance policy.

**d) Definition of 'Default'**
A default is considered to have occurred with regard to a particular obligor when either or both of the two following events have taken place:

- The obligor is past due for 90 days or more on any material credit obligations to the Company including principal instalments, interest payments and fees. The materiality threshold for recognition of default is 5% of the total outstanding credit obligations of the client.
- The Company considers that the obligor is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any).

The definition of default largely aligns with that applied by the Company for regulatory capital purposes.

**e) Incorporation of forward looking information**
The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from the external actual and forecast information, the Company formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and monetary authorities in the Kingdom of Saudi Arabia and selected private sector and academic forecasters.

The Company has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

**f) Measurement of ECL**
The key inputs into the measurement of ECL are the term structure of the following variables:

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated, based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally and externally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The Company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

EAD represents the expected exposure in the event of a default. The 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. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations.

The Company measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Company considers a longer period. The maximum contractual period extends to the date at which the Company has the right to require repayment of an advance or terminate a finance lease and notes receivables arrangement.

## 14 FINANCIAL RISK MANAGEMENT (continued)

***Credit Risk (continued)***

**Credit quality analysis (continued)**

**g) Governance and controls**

In addition to the existing risk management framework, the Company has established a Steering Committee for oversight of IFRS 9 impairment process that includes representation from Finance, Risk and Information Technology (IT), as well as the involvement of subject matter experts in the areas of methodology reviews, data sourcing, risk modelling, and formulating judgements with respect to the aspects of significant increase in credit risk determination, macroeconomic assumptions and forward looking factors. The framework and related controls have been approved by the board of directors.

***Capital Management***

The Company's capital management objectives are to ensure the Company's ability to continue as a going concern and to provide adequate return to its shareholders through the optimization of the capital structure. The Company manages the capital structure and makes adjustments in the light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

The Company monitors aggregate amount of financing offered by the Company on the basis of the regulatory requirements of Regulations for Companies and SAMA. SAMA requires finance Companies engaged in financing other than real estate, to maintain aggregate financing to capital ratio of three times.

| | ***30 June 2019 Unaudited*** | *31 December 2018 Audited* | *1 January 2018 Audited* |
|---|---|---|---|
| Aggregate financing to capital ratio (Total financing (net investment in finance lease and notes receivable) divided by total shareholders' equity) | **0.37 times** | 0.45 times | 0.55 times |

## 15 DIVIDEND

On 13 Rajab 1440H (corresponding to 19 March 2019), the Shareholders of the Company in their annual meeting approved to distribute dividend amounting to SR 800 million (SR 4.7 per share). The dividend has been paid to the shareholders subsequent to the period end on 10 Sha'ban 1440H (corresponding to 15 April 2019).

On 1 Rajab 1439H (corresponding to 18 March 2018), the shareholders of the Company in their annual meeting approved to distribute dividend amounting to SR 235.2 million (SR 1.38 per share) out of the retained earnings. The dividend has been paid in full to the shareholders.

## 16 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial assets consist of cash and bank balances, net investment in finance lease, notes receivable, due from related parties, net deferred consideration receivable, employees' receivables, amount due from insurer and other receivables. Its financial liabilities consist of due to related parties, accounts payable, payable under purchase and agency agreements, lease liabilities and amount due to Insurer.

The fair values of the financial instruments are not materially different from their carrying values except for the net investment in finance lease and notes receivable portfolio measured at amortized cost.

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

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole, as follows:

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

The following table provides the fair value measurement hierarchy of the Company's financial assets as at 30 June 2019, 31 December 2018 and 1 January 2018.

| ***30 June 2019 (Unaudited)*** | | **Fair value measurement using** | | |
|---|---|---|---|---|
| | ***Total SR'000*** | ***Quoted prices in active market (Level 1) SR'000*** | ***Significant observable inputs (Level 2) SR'000*** | ***Significant unobservable inputs (Level 3) SR'000*** |
| *Financial assets measured at fair value* | | | | |
| Notes receivable classified as fair value through other comprehensive income | **158,455** | - | - | **158,455** |
| Investment classified as fair value through other comprehensive income | **893** | - | - | **893** |

| *31 December 2018 (Audited)* | | Fair value measurement using | | |
|---|---|---|---|---|
| | *Total SR'000* | *Quoted prices in active market (Level 1) SR'000* | *Significant observable inputs (Level 2) SR'000* | *Significant unobservable inputs (Level 3) SR'000* |
| *Financial assets measured at fair value* | | | | |
| Notes receivable classified as fair value through other comprehensive income | 423,594 | - | - | 423,594 |
| Investment classified as fair value through other comprehensive income | 893 | - | - | 893 |

| *1 January 2018 (Audited)* | | Fair value measurement using | | |
|---|---|---|---|---|
| | *Total SR'000* | *Quoted prices in active market (Level 1) SR'000* | *Significant observable inputs (Level 2) SR'000* | *Significant unobservable inputs (Level 3) SR'000* |
| *Financial assets measured at fair value* | | | | |
| Investment classified as fair value through other comprehensive income | 893 | - | - | 893 |

## 17 EVENTS AFTER THE REPORTING PERIOD

Subsequent to the period end, the Company executed a purchase and agency agreement with a local commercial bank in respect of certain finance lease receivables. Under the terms of the purchase and agency agreement, the Company sold the eligible receivables to the bank net of insurance premiums and undertook to manage them on behalf of the bank as an agent for a monthly fee as per the terms of the purchase and agency agreement. The Company sold SR 171.7 million of its net finance lease receivables.

## 18 RESULTS OF INTERIM PERIOD

The interim condensed financial statements may not be considered indicative of the actual results for the full year.

## 19 RESTATEMENT/RECLASSIFICATION OF PRIOR PERIOD FIGURES

As set out in note 2(a) and 2(f), the Company has changed in accounting treatment to charge zakat for the period to the interim condensed statement of income. Previously, zakat was charged directly to the interim condensed statement of changes in shareholders' equity. The change in the accounting treatment has the following impacts on the line items of the interim condensed statement of income:

| | *For the three-months period ended 30 June 2018 SR'000* | *For the six-months period ended 30 June 2018 SR'000* |
|---|---|---|
| ***Interim condensed statement of comprehensive income*** | | |
| **Net income for the period** | | |
| Net income, as previously reported | 78,176 | 209,540 |
| Adjustment relating to zakat charge | (16,000) | (28,000) |
| Net income, as restated | 62,176 | 181,540 |
| **Earnings per share** | | |
| Basic and diluted earnings per share, as previously reported | 0.46 | 1.23 |
| Adjustment relating to zakat charge | (0.09) | (0.16) |
| Basic and diluted earnings per share, as restated | 0.37 | 1.07 |

The change has had no impact on the shareholders' equity and the interim condensed statement of cash flows for the six-month period ended 30 June 2018.

## 20 COMPARATIVE INFORMATION

Comparative information has been re-classified, re-arranged or additionally incorporated in these interim condensed financial statements, whenever necessary to facilitate comparison and to conform with changes in presentation in the current period.

## 21 BOARD OF DIRECTORS' APPROVAL

These interim condensed financial statements were approved by the Board of Directors on 1 August 2019 (corresponding to 29 Dhul-Qi'dah 1440H).