**SAUDI HOME LOANS COMPANY**
(A Saudi Closed Joint Stock Company)
**INTERIM CONDENSED FINANCIAL STATEMENTS**
**(Unaudited)**
**For the six months period ended 30 June 2019**
Together with the
**Independent auditors' review report**

**SAUDI HOME LOANS COMPANY**
(A Saudi Closed Joint Stock Company)
**INTERIM CONDENSED FINANCIAL STATEMENTS**
**For the six months period ended 30 June 2019**

**KPMG Al Fozan & Partners**
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# Independent auditors' review report on the interim condensed financial statements

## To the shareholders of Saudi Home Loans Company

### Introduction

We have reviewed the accompanying 30 June 2019 interim condensed financial statements of **Saudi Home Loans Company** ("the Company"), which comprises:

- the interim condensed statement of financial position as at 30 June 2019;
- the interim condensed statement of income for the three months and six months period ended 30 June 2019;
- the interim condensed statement of comprehensive income for the three months and six months period ended 30 June 2019;
- the interim condensed statement of changes in equity for the six months period ended 30 June 2019;
- the interim condensed statement of cash flows for the six months period ended 30 June 2019; and
- the notes to the interim condensed financial statements.

Management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with the International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") as endorsed in the Kingdom of Saudi Arabia. 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 the International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* that is endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of 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 the International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia 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 31 March 2019 interim condensed financial statements of **Saudi Home Loans Company** are not prepared, in all material respects, in accordance with IAS 34 as endorsed in the Kingdom of Saudi Arabia.

**For KPMG Al Fozan & Partners**
**Certified Public Accountants**

**Dr. Abdullah Hamad Al Fozan**
License No: 348

29 Dhul Qadah 1440H
Corresponding to: 1 August 2019

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Certified Public Accountants
KPMG Al Fozan & Partners

**SAUDI HOME LOANS COMPANY**
(A Saudi Closed Joint Stock Company)
**INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION**
(*Amounts in Saudi Riyals*)

| | ***Notes*** | **30 June 2019 (Unaudited)** | 31 December 2018 (Audited) | 30 June 2018 (Restated/ Unaudited) |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | | **71,710,778** | 79,643,334 | 100,592,007 |
| Prepaid expenses and other assets, net | *5* | **40,430,331** | 37,999,480 | 24,353,160 |
| Advances to property owners | *6* | **8,135,934** | 5,911,286 | 5,930,000 |
| Due from related parties | *7* | **834,483** | 897,247 | 963,318 |
| Investment | *8* | **892,850** | 892,850 | 892,850 |
| Investments in finance lease, net | *9* | **4,194,415,432** | 4,190,325,349 | 4,186,560,048 |
| Deferred origination fees | *10* | **27,739,283** | 29,810,236 | 31,316,728 |
| Other real estate | | **5,641,294** | 2,829,685 | 3,179,685 |
| Right-of-use asset | *11* | **7,129,885** | -- | -- |
| Property and equipment, net | | **4,731,851** | 4,065,263 | 4,144,838 |
| Deferred tax assets | *3, 15* | **4,000,428** | 4,068,676 | 3,476,323 |
| Intangible assets, net | | **2,640,189** | 3,562,076 | 3,905,788 |
| **Total assets** | | **4,368,302,738** | 4,360,005,482 | 4,365,314,745 |
| **LIABILITIES AND EQUITY** | | | | |
| **Liabilities** | | | | |
| Accounts payable | *12* | **33,194,348** | 30,937,901 | 969,076 |
| Accrued expenses and other liabilities | *13* | **8,543,201** | 6,507,469 | 6,865,255 |
| Advance lease rentals | | **9,552,778** | 7,778,549 | 17,629,846 |
| Lease liability | *11* | **6,136,468** | -- | -- |
| Provision for zakat and income tax | *14* | **39,119,751** | 36,413,896 | 3,768,280 |
| Tawarruq financing facilities | *16* | **2,790,961,577** | 2,824,238,161 | 2,890,722,332 |
| End of service benefits | *17* | **9,526,693** | 8,590,316 | 8,243,914 |
| **Total liabilities** | | **2,897,034,816** | 2,914,466,292 | 2,928,198,703 |
| **Equity** | | | | |
| Share capital | *18* | **1,000,000,000** | 1,000,000,000 | 1,000,000,000 |
| Statutory reserve | *19* | **98,157,048** | 95,687,644 | 91,658,529 |
| Actuarial (losses) / gains on end of service benefits | *17* | **(30,827)** | 406,970 | 221,710 |
| Retained earnings | *3* | **373,141,701** | 349,444,576 | 345,235,803 |
| **Total equity** | | **1,471,267,922** | 1,445,539,190 | 1,437,116,042 |
| **Total liabilities and equity** | | **4,368,302,738** | 4,360,005,482 | 4,365,314,745 |

The accompanying notes from (1) to (27) are an integral part of these interim condensed financial statements.

**SAUDI HOME LOANS COMPANY**
(A Saudi Closed Joint Stock Company)
**INTERIM CONDENSED STATEMENT OF INCOME**
**For the three months and six months period ended 30 June 2019**
(*Amounts in Saudi Riyals*)

| | Notes | For the three months ended June 30 2019 (Unaudited) | For the three months ended June 30 2018 (Restated/ Unaudited) | For the six months ended June 30 2019 (Unaudited) | For the six months ended June 30 2018 (Restated/ Unaudited) |
|---|---|---|---|---|---|
| Lease finance income | | **75,339,500** | 77,119,249 | **149,643,407** | 146,325,698 |
| Service fees, net | *20* | **2,246,133** | 2,575,921 | **4,577,080** | 5,237,153 |
| Application and evaluation fee income | | **802,703** | 584,039 | **1,268,954** | 1,243,726 |
| Other income | | **--** | 70,972 | **--** | 238,472 |
| **Total operating income** | | **78,388,336** | 80,350,181 | **155,489,441** | 153,045,049 |
| Financing charges | *16* | **(36,394,945)** | (31,743,815) | **(72,111,242)** | (62,127,781) |
| General and administrative expenses | *22* | **(13,914,726)** | (12,799,196) | **(27,282,957)** | (24,892,870) |
| (Provision for) / reversal of expected credit losses | *5, 9* | **(2,839,615)** | (15,957,587) | **1,821,650** | (18,780,984) |
| Selling and marketing expenses | *21* | **(6,952,936)** | (5,983,910) | **(12,871,767)** | (11,754,403) |
| **Net income before zakat and income tax** | | **18,286,114** | 13,865,673 | **45,045,125** | 35,489,011 |
| Zakat and income tax expense for the current period | *3, 14* | **(2,723,551)** | (188,996) | **(5,978,482)** | (3,862,251) |
| Zakat for the prior periods | *3, 14* | **(12,831,866)** | -- | **(12,831,866)** | -- |
| Deferred tax credit/(expense) | *3, 15* | **132,030** | 685,256 | **(68,248)** | 863,042 |
| | | **(15,423,387)** | 496,260 | **(18,878,596)** | (2,999,209) |
| **Net income for the period** | | **2,862,727** | 14,361,933 | **26,166,529** | 32,489,802 |

The accompanying notes from (1) to (27) are an integral part of these interim condensed financial statements.

**SAUDI HOME LOANS COMPANY**
(A Saudi Closed Joint Stock Company)
**INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME**
**For the three months and six months period ended 30 June 2019**
(*Amounts in Saudi Riyals*)

| | | For the three months ended June 30 | | For the six months ended June 30 | |
|---|---|---|---|---|---|
| | ***Note*** | **2019 (Unaudited)** | 2018 (Restated/ Unaudited) | **2019 (Unaudited)** | 2018 (Restated/ Unaudited) |
| **Net income for the period** | | **2,862,727** | 14,361,933 | **26,166,529** | 32,489,802 |
| **Other comprehensive income** | | | | | |
| *Item that cannot be subsequently reclassified to the statement of income:* | | | | | |
| Actuarial (losses) / gains on end of service benefits | *17* | **(453,739)** | 153,748 | **(437,797)** | 221,710 |
| **Total comprehensive income for the period** | | **2,408,988** | 14,515,681 | **25,728,732** | 32,711,512 |

The accompanying notes from (1) to (27) are an integral part of these interim condensed financial statements.

**SAUDI HOME LOANS COMPANY**
(A Saudi Closed Joint Stock Company)
**INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY**
**For the six months period ended 30 June 2019**
(*Amounts in Saudi Riyals*)

| | Note | Share Capital | Statutory reserve | Actuarial (losses) / gains on EOSB | Retained earnings | Total equity |
|---|---|---|---|---|---|---|
| | | **For the six months period ended 30 June 2019 (Unaudited)** | | | | |
| **Balance at beginning of the period** | | **1,000,000,000** | **95,540,395** | **406,970** | **349,591,825** | **1,445,539,190** |
| Net income for the period | | -- | -- | -- | **26,166,529** | **26,166,529** |
| Actuarial losses on end of service benefits | *17* | -- | -- | **(437,797)** | -- | **(437,797)** |
| **Total comprehensive income for the period** | | -- | -- | **(437,797)** | **26,166,529** | **25,728,732** |
| Transfer to statutory reserve | *19* | -- | **2,616,653** | -- | **(2,616,653)** | -- |
| Balance at end of the period | | **1,000,000,000** | **98,157,048** | **(30,827)** | **373,141,701** | **1,471,267,922** |

| | Note | Share capital | Statutory reserve | General Reserve | Actuarial gains on EOSB | Retained earnings | Total equity |
|---|---|---|---|---|---|---|---|
| | | **For the six months period ended 30 June 2018 (Unaudited)** | | | | | |
| Balance at beginning of the period, as reported | | 1,000,000,000 | 88,109,628 | 40,604,666 | -- | 305,676,175 | 1,434,390,469 |
| Impact of adopting IFRS 9 | *3* | -- | -- | -- | -- | (32,599,220) | (32,599,220) |
| Impact of adopting IAS 12 | *3* | -- | -- | -- | -- | 2,613,281 | 2,613,281 |
| Balance at 1 January 2018, as restated | | 1,000,000,000 | 88,109,628 | 40,604,666 | -- | 275,690,236 | 1,404,404,530 |
| Net income for the period | | -- | -- | -- | -- | 32,489,802 | 32,489,802 |
| Actuarial gains on end of service benefits | *17* | -- | -- | -- | 221,710 | -- | 221,710 |
| Total comprehensive income for the period | | -- | -- | -- | 221,710 | 32,489,802 | 32,711,512 |
| Transfer to statutory reserve | *19* | -- | 3,548,901 | -- | -- | (3,548,901) | -- |
| Reclassification of general reserve | *19* | -- | -- | (40,604,666) | -- | 40,604,666 | -- |
| Balance at end of the period | | 1,000,000,000 | 91,658,529 | -- | 221,710 | 345,235,803 | 1,437,116,042 |

The accompanying notes from (1) to (27) are an integral part of these interim condensed financial statements.

**SAUDI HOME LOANS COMPANY**
(A Saudi Closed Joint Stock Company)
**INTERIM CONDENSED STATEMENT OF CASH FLOWS**
**For the six months period ended 30 June 2019**
(*Amounts in Saudi Riyals*)

| | *Notes* | **2019 (Unaudited)** | 2018 (Unaudited) |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Net income before zakat and income tax | | **45,045,125** | 35,489,011 |
| ***Adjustments to reconcile net income to net cash generated from operating activities:*** | | | |
| Depreciation and amortisation | *22* | **2,565,995** | 1,376,201 |
| Amortisation of deferred origination fees | | **2,080,963** | 1,868,481 |
| (Reversal of) / provision for expected credit losses | *5, 9* | **(1,821,650)** | 18,780,984 |
| Provision for end of service benefits | *17* | **939,557** | 819,015 |
| Amortisation of discount on lease liability | *22* | **199,324** | -- |
| *Net (increase) / decrease in operating assets:* | | | |
| Prepaid expenses and other assets, net | | **(2,240,061)** | (1,033,229) |
| Advances to property owners | | **(2,224,648)** | 5,826,000 |
| Due from related parties | | **62,764** | 68,040 |
| Investments in finance lease, net | | **(5,080,042)** | (48,796,269) |
| *Net increase / (decrease) in operating liabilities:* | | | |
| Accounts payable | | **2,256,447** | (786,740) |
| Accrued expenses and other liabilities | | **2,035,731** | 1,023,826 |
| Advance lease rentals | | **1,774,229** | 6,025,617 |
| **Net cash from operations** | | **45,593,734** | 20,660,937 |
| Zakat and income tax paid | *14* | **(16,104,493)** | (6,749,562) |
| End of service benefits paid | *17* | **(440,977)** | (81,488) |
| Deferred origination fees paid | | **(10,010)** | (747,894) |
| **Net cash generated from operating activities** | | **29,038,254** | 13,081,993 |
| **INVESTING ACTIVITIES** | | | |
| Purchase of property and equipment | | **(1,126,181)** | (99,829) |
| Purchase of intangible assets | | **--** | (98,347) |
| **Net cash used in investing activities** | | **(1,126,181)** | (198,176) |
| **FINANCING ACTIVITIES** | | | |
| Additions in Tawarruq financing facilities | | **29,200,635** | 128,659,247 |
| Repayment of Tawarruq financing facilities | | **(62,477,219)** | (66,037,535) |
| Payment of lease liability | | **(2,568,045)** | -- |
| **Net cash (used in) / generated from financing activities** | | **(35,844,629)** | 62,621,712 |
| **Net (decrease) / increase in cash and cash equivalents** | | **(7,932,556)** | 75,505,529 |
| Cash and cash equivalents at beginning of the period | | **79,643,334** | 25,086,478 |
| **Cash and cash equivalents at end of the period** | | **71,710,778** | 100,592,007 |
| **Supplemental cash information** | | | |
| Lease finance income received | | **148,949,707** | 141,849,338 |
| Financing charges paid | | **75,388,700** | 62,137,281 |
| **Supplemental non-cash information** | | | |
| Capital work in progress transferred to intangible assets and property and equipment | | **181,675** | 203,605 |
| Investments in finance lease transferred to other real estate | | **2,829,685** | -- |
| Right-of-use asset | *11* | **7,129,885** | -- |
| Lease liability | *11* | **6,136,468** | -- |

The accompanying notes from (1) to (27) are an integral part of these interim condensed financial statements.

## 1. ACTIVITIES

Saudi Home Loans Company ("the Company") is a Saudi closed joint stock company registered in Riyadh, Kingdom of Saudi Arabia under the commercial registration no. 1010241934 dated 22 Dhul Al Hijjah 1428H (corresponding to 1 January 2008). The Company operates under Saudi Arabian General Investment Authority (“SAGIA”) license no: 102030072425-01 dated 23 Rajab 1430H (corresponding to 16 July 2009), also the Company is regulated and licensed by Saudi Arabian Monitory Authority’s (“SAMA”) license no: 14/A SH/201403 dated 27 Rabi Al-Thani 1435H (corresponding to 27 Feb 2014). The address of the Company is as follows:

Saudi Home Loans Company
P.O.Box 27072
Riyadh 11417
Kingdom of Saudi Arabia

The principal activities of the Company is to finance the purchase of houses and residential land and apartments, financing of real estate properties that are developed by all companies operating in the real estate development and financing the establishment of commercial and industrial projects.

## 2. BASIS OF PREPARATION

### a) *Statement of compliance*

These interim condensed financial statements for the three months and six months periods ended 30 June 2019 have been prepared in accordance with the International Accounting Standard (“IAS”) 34: “Interim Financial Reporting” as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organisation for Certified Public Accountants (“SOCPA”).

These interim condensed financial statements as at and for the period and year ended 30 June 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 (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 IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”. The impact of this change are disclosed in note 3.2 to the interim condensed financial statements.

## 2. BASIS OF PREPARATION (CONTINUED)

### *b) Basis of measurement*

These financial statements have been prepared on a historical cost basis, except for the equity investment which is measured at fair value through other comprehensive income ("FVOCI") and end of service benefits liability which is measured at present value of future obligations using the projected unit credit method.

### *c) Functional and presentation currency*

These financial statements are presented in Saudi Riyals, which is the functional and presentation currency of the Company. The figures in these financial statements are rounded to the nearest Saudi Riyal.

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

### 3.1 IFRS 16 Leases

Effective 1 January 2019, the Company has adopted a new accounting standard IFRS 16.

Leases that do not transfer to the Company substantially all of the risk and benefits of ownership of the asset are classified as operating leases. Consequently, all of the leases entered into by the Company are all operating leases. Payments made under operating leases are charged to the statement of income on a straight-line basis over the period of the lease.

The Company adopted IFRS 16. The standard replaces the existing guidance on leases, including 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".

IFRS 16 was issued in January 2016 and is effective for annual periods commencing on or after 1 January 2019. IFRS 16 stipulates that all leases and the associated contractual rights and obligations should generally be recognised in the Company's statement of financial position, unless the term is 12 months or less or if the leases are for low value assets. Thus, the classification required under IAS 17 "Leases" into either operating or finance leases 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 amortised over the useful life.

During the first time application of IFRS 16, the right to use the leased assets is generally measured at the amount of lease liability, using the interest rate at the time of first time application.

(*Amounts in Saudi Riyals*)

## 3. IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS (CONTINUED)

### 3.1 IFRS 16 Leases (continued)

The Company adopted IFRS 16 using the modified retrospective approach. The Company elected to apply the standard to contracts that were previously identified as 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 terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value, whenever applicable.

IFRS 16 transition disclosures also requires the Company to present the reconciliation of the off-balance sheet lease obligations as at 31 December 2018. However, all of the Company's lease contracts expired on 31 December 2018 except for one lease contract with remaining 2 months lease term. Hence, there had been no adjustment required as at 1 January 2018.

### 3.2 Accounting for zakat and income tax

As mentioned in note 2(a) to the interim condensed financial statements, 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 and income tax were recognised in the statement of changes in equity as per 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 recognised in the statement of income. The Company has accounted for this change in the accounting for zakat and income tax retrospectively. The change in the accounting treatment for zakat and income tax has the following impact on the line items of the statements of income, financial position and changes in equity:

As at and for the six months period ended 30 June 2018:

| **Financial statement impacted** | **Account** | **Before the restatement for the six-month period ended 30 June 2018:** | **Effect of restatement** | **As restated as at and for the six-month period ended 30 June 2018:** |
|---|---|---|---|---|
| Statement of changes in equity | Provision for zakat and income tax (retained earnings) | 3,862,251 | (3,862,251) | -- |
| Statement of income | Zakat and income tax expense | -- | (2,999,209) | (2,999,209) |
| Statement of financial position | Deferred tax assets | -- | 3,476,323 | 3,476,323 |

(*Amounts in Saudi Riyals*)

## 3. IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS (CONTINUED)

### 3.2 Accounting for zakat and income tax (continued)

As at and for the three -month period ended 30 June 2018:

| Financial statement impacted | Account | Before the restatement for the three-month period ended 30 June 2018: | Effect of restatement | As restated as at and for the three-month period ended 30 June 2018: |
|---|---|---|---|---|
| Statement of changes in equity | Provision for zakat and income tax (retained earnings) | 188,996 | (188,996) | -- |
| Statement of income | Zakat and income tax expense | -- | 496,260 | 496,260 |
| Statement of financial position | Deferred tax assets | -- | 3,476,323 | 3,476,323 |

As at 31 December 2018:

| Financial statement impacted | Account | Before the restatement as at 31 December 2018: | Effect of restatement | As restated as at 31 December 2018: |
|---|---|---|---|---|
| Statement of financial position | Deferred tax assets | - | 4,068,676 | 4,068,676 |
| Statement of financial position | Retained earnings | 345,375,900 | 4,068,676 | 349,444,576 |

As at 1 January 2018:

| Financial statement impacted | Account | Before the restatement as at 1 January 2018: | Effect of restatement | As restated as at 1 January 2018: |
|---|---|---|---|---|
| Statement of financial position | Deferred tax assets | - | 2,613,281 | 2,613,281 |
| Statement of financial position | Retained earnings | 273,076,955 | 2,613,281 | 275,690,236 |

The change has had no impact on the statement of cash flows for the period ended 30 June 2018.

On the basis of materiality, the deferred tax arising from the adjustment upon first time adoption of IFRS 9 (i.e. expected credit losses) was recognised by the Company in profit or loss for the period ended ended 30 June 2018.

## 4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of these interim condensed financial statements are consistent with those used in the preparation of the annual financial statements as at and for the year ended 31 December 2018 except for the policies explained below.

### *4.1 Accounting for leases*

**Before 1 January 2019, the Company followed the below accounting policy where the Company was the 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:**

Based on the adoption of IFRS 16 as explained in Note 3, the following accounting policies are applicable effective 1 January 2019.

**Right of use asset / lease liability**

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 cost model, and measures right of use asset at cost:

a. less any accumulated depreciation and any accumulated impairment losses; and
b. adjusted for any re-measurement of the lease liability for lease modifications.

**Lease lability**

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

a) Increasing the carrying amount to reflect interest on the lease liability;
b) Reducing the carrying amount to reflect the lease payments made; and
c) Re-measuring the carrying amount to reflect any re-assessment or lease modification.

### *4.2 Accounting for zakat and income tax*

**Income tax**

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

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. 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.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *4.2 Accounting for zakat and income tax (continued)*

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

**IFRIC Interpretation 23 Uncertainty over Income Tax Treatment ("the Interpretation")**

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. 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

The Company 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.

**Deferred tax**

Deferred 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 realisation 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 recognised 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 realised.

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

(*Amounts in Saudi Riyals*)

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *4.2 Accounting for zakat and income tax (continued)*

**Zakat**

The Group 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 profit or loss. Zakat is not accounted for as income tax and as such no deferred tax is calculated relating to zakat.

## 5. PREPAID EXPENSES AND OTHER ASSETS, NET

Prepaid expenses and other assets comprised of the following:

| | **30 June 2019 (Unaudited)** | 31 December 2018 (Audited) | 30 June 2018 (Unaudited) |
|---|---|---|---|
| Insurance claims receivable on decease-case leases | **25,032,600** | 25,171,311 | 23,599,643 |
| VAT receivable | **15,573,132** | 8,366,174 | -- |
| Advance tax | **1,261,124** | 3,460,872 | 1,153,624 |
| Prepaid insurance | **1,932,188** | 3,686,186 | 742,679 |
| Prepaid financing facility interest (IFC) | **4,710,361** | 4,662,866 | 4,363,009 |
| Prepaid financing facility fees (IFC) | **1,566,448** | 1,723,096 | 1,879,744 |
| Prepaid financing facility fees (GIB) | **1,200,000** | 1,537,500 | 1,875,000 |
| Legal claim | **1,018,356** | 1,018,356 | 1,018,356 |
| Prepaid software maintenance | **888,923** | 843,621 | 554,821 |
| Employees' advances and receivables | **128,023** | 144,199 | 111,410 |
| Others | **839,373** | 604,922 | 1,694,124 |
| | **54,150,528** | 51,219,103 | 36,992,410 |
| Allowance for provision for: | | | |
| - ECL on insurance claims receivable on non-performing decease-case | **(12,226,108)** | (12,201,267) | (11,620,894) |
| - Legal claim | **(1,494,089)** | (1,018,356) | (1,018,356) |
| | **40,430,331** | 37,999,480 | 24,353,160 |

All insurance claims receivable on non-performing decease-case leases are classified as stage 3 in accordance with IFRS 9.

## 6. ADVANCES TO PROPERTY OWNERS

This balance represents the amounts of certified cheques issued under the property owners' name, for the purchase of properties of the Company's Ijara Contracts (approved deals) and for which the transfer of title deeds, in the name of the Company, is in process. These certified cheques are submitted by official Company representatives directly at the Registration office at the time of title deed transfer. Risk and reward of such Ijarah contracts are not transferred as at the date of statement of financial position and therefore is recognised as an advance in the financial statements.

(*Amounts in Saudi Riyals*)

## 7. RELATED PARTY TRANSACTIONS

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

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** |
|---|---|
| Arab National Bank | Shareholder |
| International Financial Corporation | Shareholder |
| Kingdom Installment Company | Shareholder |
| ANB Metlife | Affiliate |
| Afwaf Investment Company | Affiliate |

The significant transactions during the period and the related amounts are as follows:

| | **30 June 2019 (Unaudited)** | 31 December 2018 (Audited) | 30 June 2018 (Unaudited) |
|---|---|---|---|
| Loan obtained from a shareholder (ANB) | **25,000,000** | 2,216,981,529 | 125,000,000 |
| Loan obtained from a shareholder (IFC) | **--** | 187,500,000 | -- |
| Tawaruq financing charges (ANB) | **56,137,084** | 109,898,506 | 51,982,541 |
| Tawaruq financing charges (IFC) | **5,210,413** | 8,794,273 | 4,215,123 |
| Takaful protection coverage (ANB Metlife) | **--** | 8,236,857 | 6,354,647 |
| Service fees, net | **4,577,080** | 10,156,303 | 5,237,153 |
| Prepaid financing facility fees (IFC) | **--** | 1,723,096 | 4,363,009 |
| Prepaid interest expense IFC | **4,710,361** | 4,662,866 | -- |
| Lease contract with an affiliate | **1,882,090** | 1,882,090 | 941,046 |
| Deferred origination fees paid (Note 10) | **10,010** | 1,119,091 | 747,894 |

Due from related parties, is comprised of the following:

| | **30 June 2019 (Unaudited)** | 31 December 2018 (Audited) | 30 June 2018 (Unaudited) |
|---|---|---|---|
| Arab National Bank | **834,483** | 897,247 | 963,318 |
| | **834,483** | 897,247 | 963,318 |

(*Amounts in Saudi Riyals*)

## 7. RELATED PARTY TRANSACTIONS (CONTINUED)

**Compensation of key management personnel**

The Company considers chief executive officer and chief operating officer as key management personnel.

| | **30 June 2019 (Unaudited)** | 31 December 2018 (Audited) | 30 June 2018 (Unaudited) |
|---|---|---|---|
| Salaries and other benefits | **1,222,693** | 4,175,393 | **2,086,454** |
| End of service benefits | **77,344** | 272,902 | **105,398** |
| | **1,300,037** | 4,448,295 | **2,191,852** |

## 8. INVESTMENT

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. SFLCRC 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. On 17 December 2017, Saudi Home Loans Company purchased 89,285 shares at SR 10 each, amounting to SR 892,850.

The Company has elected to classify this equity investment as FVOCI. As at the date of these financial statements, the carrying value of this investment is not materially different to its fair value

## 9. INVESTMENTS IN FINANCE LEASE, NET

This balance represents net investments in finance lease as summarized below:

| | **30 June 2019 (Unaudited)** | 31 December 2018 (Audited) | 30 June 2018 (Unaudited) |
|---|---|---|---|
| Minimum lease payments | | | |
| Performing leases | **6,521,486,957** | 6,515,280,546 | 6,464,470,569 |
| Non-performing leases | **308,151,607** | 317,694,471 | 379,963,448 |
| **Investments in finance lease, gross** | **6,829,638,564** | 6,832,975,017 | 6,844,434,017 |
| Less: Unearned finance income | **(2,570,645,693)** | (2,575,750,005) | (2,603,801,914) |
| **Investments in finance lease before impairment** | **4,258,992,871** | 4,257,225,012 | 4,240,632,103 |
| Less: Allowance for credit losses | **(64,577,439)** | (66,899,663) | (54,072,055) |
| **Investments in finance lease, net** | **4,194,415,432** | 4,190,325,349 | 4,186,560,048 |
| **Less:** Current portion | **(267,502,806)** | (262,693,122) | (205,505,676) |
| **Less:** Accrued finance lease receivable | **(40,792,652)** | (40,098,952) | (34,759,284) |
| Non-current portion | **3,886,119,974** | 3,887,533,275 | 3,946,295,088 |

Investments represent net investment in finance lease. Total number of outstanding lease agreements as at 30 June 2019 is 6,698 (31 December 2018: 6,587, 30 June 2018: 6,460).

(*Amounts in Saudi Riyals*)

## 9. INVESTMENTS IN FINANCE LEASE, NET (CONTINUED)

The Company generates substantially all of its revenues from leasing real estate in the Kingdom of Saudi Arabia. Gross amounts due in relation to the finance leases are due from individual customers. Title deeds of the underlying properties are in the name of the Company, except for those where the ownership has been transferred to Arab National Bank (a shareholder) in accordance with the terms of the facility agreement for Tawaruq Financing facilities (Refer to Note 15), and for those where the ownership has been kept under the name of Kingdom Instalment Company (a shareholder) as a custodian in accordance with the custodian agreement.

9.1 The movement in the allowance for expected credit losses for investments as at 30 June 2019 is shown below:

| | **30 June 2019** | 31 December 2018 | 30 June 2018 |
|---|---|---|---|
| Opening balance, as reported | **66,899,663** | 12,203,770 | 12,203,770 |
| Amount restated through opening retained earning upon adoption of IFRS 9 as at 1 January 2018 | **--** | 23,506,880 | 23,506,880 |
| Opening balance, as restated | **66,899,663** | 35,710,650 | 35,710,650 |
| (Reversal of) / provision for the period / year | **(2,322,224)** | 31,189,013 | 18,361,405 |
| **Closing balance** | **64,577,439** | 66,899,663 | 54,072,055 |

9.2 The credit quality of investments in finance lease as at 30 June 2019 is as follows:

| | **12 month ECL** | **Life time ECL not credit impaired** | **Life time ECL credit impaired** | **Total** |
|---|---|---|---|---|
| Gross carrying amount | **3,475,033,575** | **584,654,561** | **199,304,735** | **4,258,992,871** |
| Allowance for expected credit losses | **(2,813,419)** | **(15,410,062)** | **(46,353,958)** | **(64,577,439)** |
| Allowance for credit losses | **3,472,220,156** | **569,244,499** | **152,950,777** | **4,194,415,432** |

The credit quality of investments in finance lease as at 31 December 2018 is as follows:

| | 12 month ECL | Life time ECL not credit impaired | Life time ECL credit impaired | Total |
|---|---|---|---|---|
| Gross carrying amount | 3,520,021,639 | 469,193,929 | 268,009,444 | 4,257,225,012 |
| Allowance for expected credit losses | (1,573,096) | (10,168,698) | (55,157,869) | (66,899,663) |
| Net carrying amount | 3,518,448,543 | 459,025,231 | 21,285,575 | 4,190,325,349 |

(*Amounts in Saudi Riyals*)

## 9. INVESTMENTS IN FINANCE LEASE, NET (CONTINUED)

The credit quality of investments in finance lease as at 30 June 2018 is as follows:

| | 12 month ECL | Life time ECL not credit impaired | Life time ECL credit impaired | Total |
|---|---|---|---|---|
| Gross carrying amoun | 3,499,486,196 | 532,036,683 | 209,109,224 | 4,240,632,103 |
| Allowance for expected credit losses | (1,487,549) | (11,978,663) | (40,605,843) | (54,072,055) |
| Net carrying amount | 3,497,998,647 | 520,058,020 | 168,503,381 | 4,186,560,048 |

9.3 Maturity profile of the lease payments is as follows:

| | **30 June 2019** | | | **31 December 2018** | **30 June 2018** |
|---|---|---|---|---|---|
| **Year** | **Minimum lease payments** | **Unearned finance income** | **Investments in finance lease** | **Investments in finance lease** | **Investments in finance lease** |
| Within one year | **601,750,101** | **293,454,643** | **308,295,458** | 302,792,074 | 294,337,015 |
| Year two | **547,798,288** | **273,281,345** | **274,516,943** | 270,292,349 | 270,358,254 |
| Year three | **534,343,398** | **252,611,275** | **281,732,123** | 277,119,582 | 275,459,139 |
| Year four | **518,887,308** | **231,592,350** | **287,294,958** | 282,973,398 | 281,403,555 |
| Year five and later | **4,626,859,469** | **1,519,706,080** | **3,107,153,389** | 3,124,047,609 | 3,119,074,140 |
| | **6,829,638,564** | **2,570,645,693** | **4,258,992,871** | 4,257,225,012 | 4,240,632,103 |

**Collateral**
The Company in the ordinary course of lending activities holds collateral as security to mitigate credit risk. These collaterals are primarily title deeds in the name of the Company, for properties that have been leased out to the portfolio of investments in finance lease.

As at 30 June 2019, the carrying amount of gross non-performing leases amounted to SR 308.15 million (31 December 2018: SR 317.69 million and 30 June 2018: SR 379.96 million) and the fair value of identifiable real estate collateral held against them amount to SR 231.10 million (31 December 2018: 241.80 million and 30 June 2018: SR 325.43 million). The Company has a policy to value every year, all real estate properties leased out, by involving approved appraisers.

## 10. DEFERRED ORIGINATION FEES

Deferred origination fees comprises of the unamortised portion of commission paid to Arab National Bank, a shareholder for deals originated through the use of its infrastructure, resources and client base. This fee is amortized using the effective rate method over the period of the respective lease contracts.

(*Amounts in Saudi Riyals*)

## 11. RIGHT-OF-USE ASSET / LEASE LIABILITY

The Company has three lease contracts with different lessors for the lease of premises of the Head Office in Riyadh, Dammam Branch and Jeddah Branch. All contracts started during 2019.

Details on the three contracts are as follows:

| | Riyadh | Dammam | Jeddah | Total |
|---|---|---|---|---|
| **Undiscounted cash flows based on lease terms** | **5,646,270** | **1,115,730** | **2,500,000** | **9,262,000** |
| Lease liability, 1 January 2019 | 5,125,399 | -- | 2,164,738 | 7,290,137 |
| Additions during the period | -- | 1,024,262 | -- | 1,024,262 |
| Payment of lease liability | (1,882,090) | (185,955) | (500,000) | (2,568,045) |
| Reduction of prepaid interest | 128,135 | 8,537 | 54,118 | 190,790 |
| Amortisation of discount | 128,135 | 17,071 | 54,118 | 199,324 |
| **Lease liability, 30 June 2019** | **3,499,578** | **863,915** | **1,772,975** | **6,136,468** |
| Right-of-use asset, 1 January 2019 | 5,125,399 | -- | 2,164,738 | 7,290,137 |
| Additions during the period | | 1,024,262 | | 1,024,262 |
| Accumulated depreciation | (854,233) | (113,308) | (216,973) | (1,184,514) |
| **Right-of-use asset, 30 June 2019** | **4,271,166** | **910,954** | **1,947,765** | **7,129,885** |

The Company calculates the present value of the three contracts using the Company's incremental borrowing rate of 5% over the lease term, and amortises the right-of-use asset using the straight-line method over the lease term.

## 12. ACCOUNTS PAYABLE

On 8 April 2018, the Company has entered into an agreement with the Ministry of Housing ("MOH") where the Company purchases properties owned by MOH and enters into Ijara finance lease contracts with Saudi nationals as part of the government's initiative to provide support to Saudis who want to own houses.

As at 30 June 2019, the Company's accounts payable includes an amount due to the Ministry of Housing (MOH) amounted to SR 33.4 million (31 December 2018: 22.59). This represents purchase price of the properties where the Company has already entered into Ijarah finance lease contracts with customers while the title deeds are yet to be transferred in the name of the Company. As part of the agreement of the Company with MOH, the Company will only pay the purchase price of the properties to the MOH once the title deed of the properties were successfully transferred in the name of the Company.

## 13. ACCRUED EXPENSES AND OTHER LIABILITIES

| | **30 June 2019 (Unaudited)** | 31 December 2018 (Audited) | 30 June 2018 (Unaudited) |
|---|---|---|---|
| Employees' related expenses | **5,806,059** | 5,357,186 | 4,587,855 |
| Accrued insurance | **1,128,363** | -- | 1,178,917 |
| Accrued legal and consultation fees | **558,855** | 296,255 | 273,555 |
| Provision for maintenance on finance lease contracts | **358,553** | 404,279 | 444,800 |
| Accrued brokerage fees | **--** | 33,840 | 238,733 |
| Others | **691,371** | 415,909 | 141,395 |
| Total | **8,543,201** | 6,507,469 | 6,865,255 |

(*Amounts in Saudi Riyals*)

## 14. PROVISION FOR ZAKAT AND INCOME TAX

The following is an analysis of movements in the provision for zakat and income tax:

| | **30 June 2019 (Unaudited)** | 31 December 2018 (Audited) | 30 June 2018 (Unaudited) |
|---|---|---|---|
| Balance, beginning of the period / year | **36,413,896** | 6,655,591 | 6,655,591 |
| Zakat and income tax expense for the current period | **5,978,482** | 11,047,069 | 3,862,251 |
| Zakat for the prior periods | **12,831,866** | 25,366,827 | -- |
| Income tax adjustment | **--** | 93,971 | -- |
| Payment during the period / year | **(16,104,493)** | (6,749,562) | (6,749,562) |
| Balance, end of the period / year | **39,119,751** | 36,413,896 | 3,768,280 |

The estimate for the period provided at interim stage is the best estimate of management, therefore, actual figures may differ at year-end.

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 provision for zakat and income tax expense amounting to SR 5.98 million for the period ended 30 June 2019.

The Company has filed its zakat and income tax returns for the years from 2008 up to 2017.

In February 2019, the Company has received a proposed settlement agreement from the GAZT dated 6 February 2019 to settle certain amounts and clear the outstanding assessments relating to zakat for the financial years from 2014 to 2017 and provides a settlement calculation method for financial year 2018. The Company has accepted and signed this settlement agreement which was approved by the Board of Directors on 21 February 2019. In accordance with the terms of the settlement agreement, an advance payment of SR 5.07 million representing 20% of the settlement amount was paid on 7 March 2019 and the remaining balance will be paid in 5 equal instalments due in December each year.

The Company has received final settlement letter from GAZT dated 26 June 2019 to clear all outstanding assessments for the years from 2008 to 2013. The final assessment requires the Company to pay additional zakat amounting to SR 12.8 million. The Company accepted and paid SR 3.2 million on 17 July 2019 of the total settlement amount representing down payment. The Company in its letter dated 14 July 2019 has asked GAZT for a fixed instalment terms for the remaining amount of SR 9.6 million. The Company awaits for the response from GAZT.

Additional provision amount for zakat had been recognised based on these settlement agreement/letter received.

(*Amounts in Saudi Riyals*)

## 15. DEFERRED TAX

| | **30 June 2019** | 31 December 2018 (Restated) | 30 June 2018 (Restated) |
|---|---|---|---|
| Balance at the beginning of the period / year | 4,068,676 | 2,613,281 | 2,613,281 |
| Movement for the period | (68,248) | 1,455,395 | 863,042 |
| Balance at end of the period / year | **4,000,428** | **4,068,676** | **3,476,323** |

The Company's deferred tax assets arise from employees' end of service benefits liability, expected credit losses, etc. Based on management assessment, the Company expects sufficient future taxable profits available against which the deferred tax assets will be utilised.

## 16. TAWARRUQ FINANCING FACILITIES

| | **30 June 2019 (Unaudited)** | 31 December 2018 (Audited) | 30 June 2018 (Unaudited) |
|---|---|---|---|
| Current portion of facilities | **728,926,382** | 643,677,938 | 821,983,585 |
| Non-current portion of facilities | **2,057,834,560** | 2,173,082,129 | 2,065,079,500 |
| Total excluding financial charges | **2,786,760,942** | 2,816,760,067 | 2,887,063,085 |
| Accrued Tawaruq financing charges | **4,200,635** | 7,478,094 | 3,659,247 |
| Total including financial charges | **2,790,961,577** | 2,824,238,161 | 2,890,722,332 |

This item represents the Tawarruq financing facilities from Arab National Bank (shareholder) ("ANB"), International Finance Corporation (Shareholder) ("IFC") and Gulf International Bank ("GIB") to finance the investments in finance lease. Arab National Bank facilities are secured by promissory notes, transfer of certain property title deeds ownership and assignment of contracts and proceeds from investments in finance lease covering 105% of the outstanding facilities amounting to SR 2.30 billion in favour of the bank. These facilities bear finance charges at 6months SIBOR plus annual profit margin of 2%. Starting from 2012, 20% of these facilities were repaid in eight to ten equal semi-annual instalments, whereas the remaining 80% will be due and paid at facility maturity date.

The Company has a Murabaha facility with Gulf International Bank dated September 2015, for a period of 5 years; 20% of which will be repaid in 10 equal semi-annual payments and the remaining 80% will be repaid as a lump sum on the final maturity date. The facility is secured through the issuance of promissory notes and against contract receivables covering 120% amounting to SR 492.18 million of the finance amount. The facility bears a finance charge of 6 months SIBOR plus a profit margin of 1.95%.

Loan from ANB is SR 2,193,310,882 (31 December 2018: SR 2,458,760,514, 30 June 2018: SR 2,427,996,169), GIB is SR 410,150,695 (31 December 2018: SR 276,236,028, 30 June 2018: SR 275,226,163) and from IFC is SR 187,500,000 (31 December 2018: SR 187,500,000, 30 June 2018: SR 187,500,000).

The finance charge related to these facilities, expensed during 2019 is as follows:

| | **30 June 2019 (Unaudited)** | 31 December 2018 (Audited) | 30 June 2018 (Unaudited) |
|---|---|---|---|
| ANB Tawarruq Facility | **56,137,084** | 109,898,506 | 51,967,146 |
| GIB Tawarruq Facility | **10,763,744** | 12,674,976 | 5,945,513 |
| IFC Tawarruq Facility | **5,210,414** | 9,126,319 | 4,215,122 |
| Total Finance Charge | **72,111,242** | 131,699,801 | 62,127,781 |

(*Amounts in Saudi Riyals*)

## 17. END OF SERVICES BENEFITS

The Company operates an end of service benefit plan for its staff based on prevailing Saudi Labor Laws.

**Defined benefit cost**

| | **30 June 2019 (Unaudited)** | 31 December 2018 (Audited) | 30 June 2018 (Unaudited) |
|---|---|---|---|
| Current service cost | **732,951** | 1,379,289 | 689,645 |
| Interest cost on defined benefit obligation | **206,606** | 258,741 | 129,370 |
| Actuarial gain on obligation recognised in OCI during the period / year | **--** | (406,970) | (221,710) |
| Total defined benefit cost | **939,557** | 1,231,060 | 597,305 |

**Movements in the present value of defined benefit obligation**

| | **30 June 2019 (Unaudited)** | 31 December 2018 (Audited) | 30 June 2018 (Unaudited) |
|---|---|---|---|
| Defined benefit obligation at the beginning of the period /year | **8,590,316** | 7,728,097 | 7,728,097 |
| Current service cost | **732,951** | 1,379,289 | 689,645 |
| Interest cost on defined benefit obligation | **206,606** | 258,741 | 129,370 |
| Benefits paid to outgoing employees | **(440,977)** | (368,841) | (81,488) |
| Actuarial gain on obligation | **437,797** | (406,970) | (221,710) |
| Defined benefit obligation at the end of the period / year | **9,526,693** | 8,590,316 | 8,243,914 |

**Principal actuarial assumptions (in respect of the employee benefit scheme)**

| | **30 June 2019 (Unaudited)** | 31 December 2018 (Audited) | 30 June 2018 (Unaudited) |
|---|---|---|---|
| Discount rate | **3.35%** | 4.55% | 4.25% |
| Expected rate of salary increase | **5.0%** | 5.0% | 5.0% |
| Normal retirement age | **60** | 60 | 60 |

Assumptions regarding future mortality are set based on actuarial advice in accordance with the published statistics and experience in the region.

(*Amounts in Saudi Riyals*)

## 17. END OF SERVICES BENEFITS (CONTINUED)

**Maturity profile of the defined benefit obligation**

| | **30 June 2019 (Unaudited)** | 31 December 2018 (Audited) | 30 June 2018 (Unaudited) |
|---|---|---|---|
| Weighted average duration of the defined benefit obligation | 10.19 | 9.96 | 10.25 |
| Distribution of timing of benefit payments | | | |
| Year 1 | **524,063** | 472,332 | 452,489 |
| Year 2 | **1,016,947** | 542,942 | 517,156 |
| Year 3 | **686,463** | 1,080,285 | 1,014,014 |
| Year 4 | **745,636** | 685,393 | 669,994 |
| Year 5 | **1,081,900** | 986,323 | 713,220 |
| Year 6-10 | **6,943,134** | 7,749,453 | 7,940,315 |

**Sensitivity analysis on significant actuarial assumptions:**

| | **30 June 2019 (Unaudited)** | 31 December 2018 (Audited) | 30 June 2018 (Unaudited) |
|---|---|---|---|
| Discount rate +0.5% | **(486,646)** | (428,735) | 417,520 |
| Discount rate -0.5% | **486,646** | 428,735 | (417,520) |
| Long term salary increase +0.5% | **379,607** | 298,125 | 291,676 |
| Long term salary increase -0.5% | **(379,607)** | (298,125) | (291,676) |

## 18. SHARE CAPITAL

The authorised, issued and fully paid share capital of the company consists of 100 million shares of SAR 10 each.

The ownership of the company's share capital is as follows:

| | **No. of shares** | **Share capital** |
|---|---|---|
| Arab National Bank | 40,000,000 | 400,000,000 |
| Dar Al Arkan Real Estate Development Company | 15,000,000 | 150,000,000 |
| Kingdom Instalment Company | 9,000,000 | 90,000,000 |
| Youssef bin Abdullah Al Shalash | 8,000,000 | 80,000,000 |
| Tareq Mohammad Al Jarallah | 6,000,000 | 60,000,000 |
| Hathlool Bin Saleh Al Hathlool | 6,000,000 | 60,000,000 |
| International Finance Corporation | 5,000,000 | 50,000,000 |
| Abdulatif Bin Abdullah Al Shalash | 5,000,000 | 50,000,000 |
| Inma Almadaen Company | 4,000,000 | 40,000,000 |
| Daem Al Khaleej Company | 2,000,000 | 20,000,000 |
| **Total** | **100,000,000** | **1,000,000,000** |

(*Amounts in Saudi Riyals*)

## 19. STATUTORY AND GENERAL RESERVES

In accordance with the Company's By-laws, minimum 10% of the annual net income is required to be transferred to a statutory reserve until this reserve equals 30% of the capital. This reserve is not available for dividend distribution.

On 27 Rabi II 1438H, corresponding to 25 January 2017, SAMA issued circular number 381000046342, whereby financing companies were required to maintain a minimum general provision at 1% of their outstanding investments in finance lease exposure after deducting the non-performing portfolio. Therefore, to comply with this requirement of SAMA, the Company set aside the required amount as a general reserve from equity which amounted to SR 40.60 million as at 31 December 2017.

With the implementation of IFRS 9 from 1 January 2018, a provision for expected credit losses was created from the retained earnings amounting to SR 32 million. Therefore, management decided to reclassify this excess provision of SR 40.60 million from general reserve back to retained earnings as shown in the statement of changes in equity.

## 20. SERVICE FEE, NET

In 2014, the Company entered into an Asset Sale Agreement with Arab National Bank ("ANB") to sell investments in finance lease with a carrying value of SR 706.5 million represented by 1,404 deals in settlement of facilities equal to the carrying value of these investments in finance lease. This comprised of three transactions executed on March 27, 2014, May 22, 2014, and July 20, 2014 ("sold portfolio") respectively.

As part of this Asset Sale Agreement, ANB and the Company also signed an agreement in relation to this sold portfolio to be recognised, based on an agreed profit sharing schedule built upon monthly instalments from this sold portfolio to compensate for the administrative services provided by the Company which is based on market rate. ANB has no recourse to the Company in relation to any default/loss on the outstanding balance of the investments in finance lease and the related insurance claims receivable, if any. Thus, all substantial risks and rewards associated with the sold portfolio were transferred to ANB at the time of sale in 2014 hence derecognised by the Company.

Fees earned from sold portfolio during the period ended 30 June 2019 amounted to SR 4.58 million (SR 5.24 million during the period ended 30 June 2018).

## 21. SELLING AND MARKETING EXPENSES

| | **For three months ended June** | | **For six months ended June 30** | |
|---|---|---|---|---|
| | **2019 (Unaudited)** | **2018 (Unaudited)** | 2019 (Unaudited) | 2018 (Unaudited) |
| Insurance expenses | **3,238,193** | 3,472,943 | **6,465,268** | 6,929,635 |
| Origination expenses | **1,018,910** | 914,832 | **2,080,964** | 1,868,481 |
| Sales, collection and title transfer commission | **1,163,784** | 678,456 | **2,055,423** | 1,360,843 |
| Marketing expenses | **1,021,500** | 392,547 | **1,358,115** | 501,287 |
| Evaluation fees | **459,550** | 467,400 | **816,000** | 990,100 |
| Others | **50,999** | 57,732 | **95,997** | 104,057 |
| | **6,952,936** | 5,983,910 | **12,871,767** | 11,754,403 |

(*Amounts in Saudi Riyals*)

## 22. GENERAL AND ADMINISTRATIVE EXPENSES

| | For three months ended June 30 | | For six months ended June 30 | |
|---|---|---|---|---|
| | **2019 (Unaudited)** | **2018 (Unaudited)** | **2019 (Unaudited)** | 2018 (Unaudited) |
| Employees' salaries and other benefits | **10,290,433** | 9,013,431 | **20,125,306** | 17,816,674 |
| Depreciation and amortisation | **1,311,038** | 691,435 | **2,565,995** | 1,376,201 |
| Consultation fees | **858,040** | 697,093 | **1,582,886** | 1,472,531 |
| Repairs and maintenance | **489,685** | 482,493 | **874,253** | 740,944 |
| Telecommunication expenses | **171,000** | 192,000 | **351,999** | 378,000 |
| Travel expenses | **179,370** | 224,982 | **395,473** | 376,351 |
| Amortisation of discount on lease liability | **103,931** | -- | **199,324** | -- |
| Recruitment-related expenses | **(29,139)** | 172,234 | **85,540** | 209,801 |
| Rent expense | -- | 680,661 | -- | 1,392,746 |
| Others | **540,368** | 644,867 | **1,102,181** | 1,129,622 |
| | **13,914,726** | 12,799,196 | **27,282,957** | 24,892,870 |

## 23. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

The principal or the most advantageous market is accessible by the Company.
Financial instruments comprise of Ijarah receivables.

### *Fair value hierarchy*

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

All financial assets (including lease receivables) and financial liabilities, except the Company's equity investments in SFLCRC (note 8), are measured at amortized cost. 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.

(*Amounts in Saudi Riyals*)

## 23. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Tawarruq financing facilities bear floating rate of interest based on SIBOR and hence, there is no difference between the carrying value and fair value. Other financial liabilities such as accounts payable and accrued expenses and other liabilities approximate their fair values due to their short term in nature.

The fair value of net investments in finance leases and investment are as follows:

| | | **30 June 2019 (Unaudited)** | | | |
|---|---|---|---|---|---|
| | **Carrying Value** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Net investments in finance leases | **4,194,415,432** | **--** | **--** | **4,189,273,698** | **4,189,273,698** |
| Investment | **892,850** | **--** | **--** | **892,850** | **892,850** |
| Total | | **--** | **--** | **4,190,166,548** | **4,190,166,548** |

| | | 31 December 2018 (Audited) | | | |
|---|---|---|---|---|---|
| | Carrying Value | Level 1 | Level 2 | Level 3 | Total |
| Net investments in finance leases | 4,190,325,349 | | -- | 4,185,195,879 | 4,185,195,879 |
| Investment | 892,850 | -- | -- | 892,850 | 892,850 |
| Total | | -- | -- | 4,186,088,729 | 4,186,088,729 |

| | | 30 June 2018 ( Unaudited ) | | | |
|---|---|---|---|---|---|
| | Carrying Value | Level 1 | Level 2 | Level 3 | Total |
| Net investments in finance leases | 4,186,560,048 | | -- | 4,181,369,461 | 4,181,369,461 |
| Investment | 892,850 | -- | -- | 892,850 | 892,850 |
| Total | | -- | -- | 4,182,262,311 | 4,182,262,311 |

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

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

## 24. 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:

| | **30 June 2019** | 31 December 2018 | 30 June 2018 |
|---|---|---|---|
| Total capital ratio % | **22.84%** | 23.12% | 23.37% |

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 1 billion (100 million share).

## 25. COMMITMENT AND CONTINGENCIES

The Company has contingencies related to outstanding letter of guarantee issued by the Company in its normal course of business amounting to SR45,638,701 (2017: SR 45,638,701) issued in favour of GAZT related to the zakat assessments raised for previous years from 2008 to 2011. However, as mentioned in note 14 to the financial statements, the Company has reached final settlement with GAZT on al outstanding assessments for zakat. The Company in its letter dated 7 July 2019 has requested GAZT to cancel the letter of guarantee in favour of the Company.

## 26. SUBSEQUENT EVENTS

Except for the following as disclosed in these interim condensed financial statements, there were no other significant events after the reporting period that require disclosure or adjustment in these interim condensed financial statements:

a. As disclosed in note 14 to these interim condensed financial statements, the Company has paid SR 3.2 million as down payment in relation to the settlement letter dated 26 June 2019 the Company received from GAZT to settle the outstanding assessments for zakat from 2008 to 2013.

b. As disclosed in note 24 to these interim condensed financial statements, the Company has an outstanding letter of guarantee amounting to SR 45.64 million issued by the Company in favour of GAZT in relation to the zakat assessments it has raised in previous years. As the Company has reached final settlement with GAZT on all outstanding assessments for zakat, the Company in its letter dated 7 July 2019 has requested GAZT to cancel the letter of guarantee in favour of the Company.

## 27. APPROVAL OF THE BOARD OF DIRECTORS

These financial statements were approved by the Board of Directors on 29 Dhul Qadah 1440H corresponding to 1 August 2019.