

SAUDI ORIX LEASING COMPANY
(A Saudi Closed Joint Stock Company)

**Unaudited Condensed Interim Financial Statements
and Independent Auditor's Review Report
For the nine-month period ended September 30, 2020**

SAUDI ORIX LEASING COMPANY
(A Saudi Closed Joint Stock Company)
Unaudited Condensed Interim Financial Statements
For the nine-month period ended September 30, 2020

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Report On Review of Condensed Interim Financial Statements

To the Shareholders of Saudi ORIX Leasing Company:
(A Saudi Closed Joint Stock Company)

Introduction

We have reviewed the accompanying interim statement of financial position of Saudi ORIX Leasing Company (A Saudi Closed Joint Stock Company) (the "Company") as of September 30, 2020 and the related interim statements of income and other comprehensive income for the three and nine-month periods then ended, and the statements of changes in shareholder's equity and cash flows for the nine-month period then ended, and a summary of significant accounting policies and other explanatory notes (the "condensed interim financial statements"). Management is responsible for the preparation and presentation of these condensed interim financial statements in accordance with International Accounting Standard No. 34 "Interim Financial Reporting" (IAS 34) as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these condensed interim 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 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 International Standards on Auditing as 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 condensed interim financial statements are not prepared, in all material respects, in accordance with IAS 34 as endorsed in the Kingdom of Saudi Arabia.

PricewaterhouseCoopers

Bader I. Benmohareb
License Number 471

October 26, 2020

SAUDI ORIX LEASING COMPANY
(A Saudi Closed Joint Stock Company)
INTERIM STATEMENT OF FINANCIAL POSITION
(All amounts are in Saudi Riyals unless stated otherwise)

	Notes	As at September 30, 2020 (Unaudited)	As at December 31, 2019 (Audited)
Assets			
Non-current assets:			
Property and equipment		871,677	2,236,661
Intangible assets		249,088	260,190
Equity investment designated at FVOCI		892,850	892,850
Net investment in finance leases	4	408,370,818	315,478,752
Net investment in murabaha finance	5	124,233,525	96,684,073
		<u>534,617,958</u>	<u>415,552,526</u>
Current assets:			
Current maturity of net investment in finance leases	4	454,417,954	588,814,092
Current maturity of net investment in murabaha finance	5	44,871,999	42,493,236
Advances, prepayments and other receivables	6	48,110,974	54,938,278
Term deposits	7	165,000,000	-
Cash and cash equivalents	7	9,265,856	38,925,221
		<u>721,666,783</u>	<u>725,170,827</u>
Total assets		<u>1,256,284,741</u>	<u>1,140,723,353</u>
Equity and liabilities			
Equity:			
Share capital		550,000,000	550,000,000
Statutory reserve		85,349,990	85,349,990
Retained earnings		210,079,593	239,187,449
Total equity		<u>845,429,583</u>	<u>874,537,439</u>
Liabilities			
Non-current liabilities:			
Long-term loans and grants	8	212,107,416	73,184,950
Zakat and income tax	11	7,898,526	7,898,526
Employees' end of service benefits (EOSB)		19,312,215	17,428,885
		<u>239,318,157</u>	<u>98,512,361</u>
Current liabilities:			
Bank overdraft	7	-	29,085,031
Current maturity of loans and lease liability	8	70,397,091	42,105,934
Accounts payable		62,655,558	49,153,206
Zakat and income tax	11	3,447,033	14,332,088
Accrued expenses and other liabilities	9	35,037,319	32,997,294
		<u>171,537,001</u>	<u>167,673,553</u>
Total liabilities		<u>410,855,158</u>	<u>266,185,914</u>
Total equity and liabilities		<u>1,256,284,741</u>	<u>1,140,723,353</u>
Commitments	14		

The accompanying notes (1) through (19) form an integral part of these condensed interim financial statements.


Chief Executive Officer


Director



Chief Financial Officer

SAUDI ORIX LEASING COMPANY
(A Saudi Closed Joint Stock Company)
INTERIM STATEMENT OF INCOME - UNAUDITED
(All amounts are in Saudi Riyals unless stated otherwise)

	Notes	For the three-month ended September 30		For the nine-month ended September 30	
		2020	2019	2020	2019
REVENUE	10	25,735,316	24,756,959	78,073,645	79,750,983
EXPENSES					
Special commission expense	8.2	(3,775,854)	(1,029,089)	(7,956,120)	(3,944,992)
(Provision) / reversal for impairment on financial assets	4.2 & 5.2	(6,474,475)	(1,871,888)	(18,151,341)	105,815
Modification loss	4.3 & 5.3	(15,785,260)	-	(44,621,545)	-
Government grant income	17	7,429,818	-	36,266,103	-
Salaries and employee related expenses		(8,902,854)	(9,383,421)	(27,736,110)	(28,491,569)
General and administrative expenses	12	(2,671,247)	(1,457,369)	(9,035,738)	(5,803,956)
Depreciation and amortization		(528,847)	(558,759)	(1,632,307)	(1,677,783)
Total expenses		(30,708,719)	(14,300,526)	(72,867,058)	(39,812,485)
(Loss) / Income for the period before zakat and income tax		(4,973,403)	10,456,433	5,206,587	39,938,498
Zakat expense					
- Current period		717,912	(1,466,643)	(966,401)	(5,567,207)
- Prior periods		-	1,815,360	-	(36,818,943)
Income tax expense		4,969,069	(714,587)	3,575,361	(2,517,006)
Total zakat and income tax refund / (expense)		5,686,981	(365,870)	2,608,960	(44,903,156)
Income / (loss) for the period after zakat and income tax		713,578	10,090,563	7,815,547	(4,964,658)
Earnings / (loss) per share - basic and diluted	13	0.01	0.18	0.14	(0.09)

The accompanying notes (1) through (19) form an integral part of these condensed interim financial statements.


Chief Executive Officer


Director


Chief Financial Officer

SAUDI ORIX LEASING COMPANY
(A Saudi Closed Joint Stock Company)

INTERIM STATEMENT OF OTHER COMPREHENSIVE INCOME - UNAUDITED
(All amounts are in Saudi Riyals unless stated otherwise)

	For the three-month ended September 30		For the nine-month ended September 30	
	2020	2019	2020	2019
Income / (loss) for the period after zakat and income tax	713,578	10,090,563	7,815,547	(4,964,658)
Other comprehensive income				
<i>Items that will not be reclassified to statement of income in subsequent periods</i>				
Remeasurement gain / (loss) on employees' EOSB	179,919	124,262	(7,997)	208,586
<i>Items that are or may be reclassified to statement of income in subsequent periods</i>				
Cash flow hedges - effective portion of changes in fair value	-	231	-	(1,617,518)
Total comprehensive income / (loss) for the period	893,497	10,215,056	7,807,550	(6,373,590)

The accompanying notes (1) through (19) form an integral part of these condensed interim financial statements.



Chief Executive Officer



Director



Chief Financial Officer

SAUDI ORIX LEASING COMPANY
(A Saudi Closed Joint Stock Company)
INTERIM STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30,
(All amounts are in Saudi Riyals unless stated otherwise)

	Share capital	Statutory reserve	Retained earnings	Cash flow hedge reserve	Total equity
Balance as at December 31, 2018 (Audited)	550,000,000	84,608,524	218,715,570	1,657,447	854,981,541
Total comprehensive income/(loss):	-	-	(4,964,658)	-	(4,964,658)
Loss for the period after zakat and income tax	-	-	208,586	(1,617,518)	(1,408,932)
Other comprehensive income/(loss)	-	-	(4,756,072)	(1,617,518)	(6,373,590)
Transactions with shareholders of the Company, recorded directly in shareholders' equity:					
Dividend paid (Note 16)	-	-	(27,500,000)	-	(27,500,000)
Zakat recovered	-	-	7,135,925	-	7,135,925
Prior period tax refund adjustment	-	-	(836,806)	-	(836,806)
Income tax recovered	-	-	3,917,108	-	3,917,108
Recoverable from Saudi shareholders for prior period zakat settlement (note 8 & 11)	-	-	30,674,519	-	30,674,519
Total transactions with shareholders of the Company	-	-	13,390,746	-	13,390,746
Balance as at September 30, 2019 (Unaudited)	550,000,000	84,608,524	227,350,244	39,929	861,998,697
Balance as at December 31, 2019 (Audited)	550,000,000	85,349,990	239,187,449	-	874,537,439
Total comprehensive income:	-	-	7,815,547	-	7,815,547
Income for the period after zakat and income tax	-	-	(7,997)	-	(7,997)
Other comprehensive loss	-	-	7,807,550	-	7,807,550
Transactions with shareholders of the Company, recorded directly in shareholders' equity:					
Dividend paid (Note 16)	-	-	(36,915,406)	-	(36,915,406)
Balance as at September 30, 2020 (Unaudited)	550,000,000	85,349,990	210,079,593	-	845,429,583

The accompanying notes (1) through (19) form an integral part of these condensed interim financial statements.


Chief Executive Officer


Director


Chief Financial Officer


SAUDI ORIX LEASING COMPANY
(A Saudi Closed Joint Stock Company)
INTERIM STATEMENT OF CASH FLOWS - UNAUDITED
FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30,
(All amounts are in Saudi Riyals unless stated otherwise)

	Notes	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Income for the period before zakat and income tax		5,206,587	39,938,498
Adjustments for non-cash items:			
Depreciation of property and equipment		1,555,884	1,590,574
Amortisation of intangible assets		76,423	87,209
Special commission expense		7,956,120	3,944,992
Provision / (reversal) for impairment on financial assets	4.2 & 5.2	18,151,341	(105,815)
Modification loss net of government grant income		8,355,442	-
Gain on disposal of property and equipment		(4,762)	-
		<u>41,297,035</u>	<u>45,455,458</u>
Changes in operating assets and liabilities:			
Net investment in finance leases & murabaha finance		(44,136,016)	8,815,535
Advances, prepayments and other receivables		(7,261,351)	(11,700,005)
Accounts payable		13,502,352	8,275,253
Accrued expenses and other liabilities		(5,020,988)	(976,868)
Employees' end of service benefits, net		1,875,333	1,369,177
Net cash generated from operating activities		<u>256,365</u>	<u>51,238,550</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investments in term deposits	7	(165,000,000)	-
Additions to property, equipment and intangible assets		(256,221)	(353,353)
Proceeds from disposal of property and equipment		4,762	-
Net cash used in investing activities		<u>(165,251,459)</u>	<u>(353,353)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans	8.1 & 17	20,000,000	161,250,000
Proceeds from profit free SAMA deposit	8 & 17	178,400,000	-
Repayments of loans		(7,314,704)	(272,929,952)
Special commission and other bank charges paid		(445,107)	(4,103,332)
Zakat paid on behalf of Saudi shareholders		(7,620,413)	(26,275,925)
Income tax paid on behalf of Non-Saudi shareholders		(1,826,762)	-
Dividends paid, net of zakat and income tax recovered		(16,772,254)	(16,446,967)
Net cash generated from / (used in) financing activities		<u>164,420,760</u>	<u>(158,506,176)</u>
Net change in cash and cash equivalents		(574,334)	(107,620,979)
Cash and cash equivalents at the beginning of the period		9,840,190	136,854,497
Cash and cash equivalents at the end of the period	7	<u>9,265,856</u>	<u>29,233,518</u>
Supplemental non-cash information			
Recognition of right-of-use asset as per IFRS 16		149,769	1,946,998
Fair value change on cash flow hedges		-	(1,617,518)

The accompanying notes (1) through (19) form an integral part of these condensed interim financial statements.


Chief Executive Officer


Director


Chief Financial Officer

SAUDI ORIX LEASING COMPANY

(A Saudi Closed Joint Stock Company)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE NINE-MONTHS PERIOD ENDED SEPTEMBER 30, 2020 (Unaudited)

(All amounts are in Saudi Riyals unless stated otherwise)

1. GENERAL INFORMATION

Saudi ORIX Leasing Company (the "Company") is a Saudi closed joint stock company established under the Regulations for Companies in the Kingdom of Saudi Arabia. The Company operates under Commercial Registration number 1010163957 issued in Riyadh on Shawal 21, 1421H (corresponding to January 16, 2001), non-industrial license number 99 dated Safar 27, 1421H (corresponding to May 31, 2000) issued by the Ministry of Commerce and Investment, license number 7/A Sh/201403 dated 27 /04/ 1435H (corresponding to February 27, 2014) issued by the Saudi Arabian Monetary Authority ("SAMA"), through its five branches (December 31, 2019: five branches) in the Kingdom of Saudi Arabia.

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

Saudi ORIX Leasing Company
7690, Al Madhar – As Sulimaniyah
Unit no. 1
Riyadh 12621 – 2692
Kingdom of Saudi Arabia

The Company has the following branches:

Branch commercial registration number	Date	Location
2050046083	9 Jamada Awal 1425H	Dammam
4030150057	9 Jamada Awal 1425H	Jeddah
2055013067	9 Rabi-Al-Awwal 1432H	Jubail
5855036378	9 Rabi-Al-Awwal 1432H	Khamis Mushait
4031090240	26 Rabi-Al-Thanni 1436H	Makkah

The results, assets and liabilities of the branches are included in these condensed interim financial statements.

The objective of the Company is to provide lease financing for movable and immovable assets and murabaha financing to all economic sectors in the Kingdom of Saudi Arabia.

These condensed interim financial statements have been reviewed, not audited.

2. BASIS OF PREPARATION

2.1 The condensed interim financial statements of the Company as at and for the period ended September 30, 2020 have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organisation for Certified Public Accountants ("SOCPA").

2.2 The condensed interim financial statements do not include all information and disclosure required in the annual audited financial statements and should be read in conjunction with the annual audited financial statements for the year ended December 31, 2019.

2.3 The Company has not early adopted any new standards, interpretation or amendments that have been issued but which are not yet effective.

2.4 The accounting policies used in the preparation of the condensed interim financial statements are consistent with those followed in the preparation of the Company's financial statements for the year ended December 31, 2019, except those stated in note 2.5.

2.5 Accounting policy related to government grants

The Company recognizes a government grant related to income, if there is a reasonable assurance that it will be received and the Company will comply with the conditions associated with the grant. The benefit of a government deposit at a below-market rate of profit is treated as a government grant related to income. The below-market rate deposit is recognised and measured in accordance with IFRS 9 Financial Instruments. The benefit of the below-market rate of profit is measured as the difference between the initial fair value of the deposit determined in accordance with IFRS 9 and the proceeds received. The benefit is accounted for in accordance with IAS 20. Government grant is recognised in interim statement of income on a systematic basis over the periods in which the Company recognises as expenses the related costs for which the grants is intended to compensate.

SAUDI ORIX LEASING COMPANY
(A Saudi Closed Joint Stock Company)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE NINE-MONTHS PERIOD ENDED SEPTEMBER 30, 2020 (Unaudited)
(All amounts are in Saudi Riyals unless stated otherwise)

3. USE OF JUDGEMENTS AND ESTIMATES

The preparation of condensed interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. The interim results may not represent a proper indication of the annual results of operations. In preparing these condensed interim financial statements, the significant judgments made by management in applying the accounting policies and the key sources of estimation uncertainty were the same as those that applied to the statutory financial statements as at and for the year ended December 31, 2019 except for the estimates described below:

Measurement of the expected credit loss allowance

In the preparation of the condensed interim financial statements, management has made certain additional assumptions in the measurement of Expected Credit Loss (ECL). Explanation of such inputs, assumptions and estimation techniques used in measuring ECL are further detailed in note 17 to these condensed interim financial statements. However, in view of the current uncertainty as explained in note 17, any future change in the assumptions and key estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods. As the situation is rapidly evolving with future uncertainties, management will continue to assess the impact based on prospective developments.

4. NET INVESTMENT IN FINANCE LEASES

4.1 Reconciliation between gross and net investment in finance leases is as follows:

	Note	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Lease receivables		1,217,283,324	1,320,288,413
Residual value		606,677,242	727,632,292
Gross investment in finance leases		1,823,960,566	2,047,920,705
Non-refundable security deposits		(599,613,015)	(719,987,975)
Prepaid lease rentals		(57,414,315)	(55,418,187)
Net receivables		1,166,933,236	1,272,514,543
Unearned lease finance income		(143,829,387)	(172,343,386)
Net investment in finance leases		1,023,103,849	1,100,171,157
Modification loss	4.3 & 17	(38,379,324)	-
Income on modified finance lease	10	5,860,641	-
Provision for impairment	4.2	(127,796,394)	(195,878,313)
		862,788,772	904,292,844
Current maturity		(454,417,954)	(588,814,092)
		408,370,818	315,478,752

4.2 The movement in the provision for impairment of lease receivables is as follows:

	Note	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Balance as at January 1		195,878,313	221,118,111
Provision for the period/year, net		17,841,390	2,426,292
Bad debt written-off		(85,923,309)	(27,666,090)
Balance at the end of the period/year	4.2.1	127,796,394	195,878,313

SAUDI ORIX LEASING COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE NINE-MONTHS PERIOD ENDED SEPTEMBER 30, 2020 (Unaudited)
(All amounts are in Saudi Riyals unless stated otherwise)

4. NET INVESTMENT IN FINANCE LEASES (continued)

4.2.1 Portfolio provision analysis for net investment in leases:

September 30, 2020 (Unaudited)	Net investment in finance lease	Provision for impairment	Expected Loss rates
Not yet due	739,877,865	584,347	0.0% - 0.07%
Overdue 1-90 days	73,925,861	494,889	0.08% - 2.73%
Overdue 91-180 days	407,148	97,956	2.74% - 8.11%
Overdue 181-365 days	14,028,661	4,046,421	8.12% - 49.82%
Overdue above 365 days and Specific accounts*	194,864,314	122,572,781	49.83% - 100%
	1,023,103,849	127,796,394	

December 31, 2019 (Audited)	Net investment in finance lease	Provision for impairment	Expected Loss rates
Overdue Not yet due	692,836,854	632,731	0.0% - 0.07%
Overdue 1-90 days	143,815,101	561,130	0.08% - 1.20%
Overdue 91-180 days	12,280,615	445,523	1.21% - 5.66%
Overdue 181-365 days	22,304,038	1,672,195	5.67% - 65.49%
Overdue above 365 days and Specific accounts*	228,934,549	192,566,734	65.50% - 100%
	1,100,171,157	195,878,313	

*This includes specific accounts amounting to SR 73.8 million (December 31, 2019: SR 128.3 million) having net investment in finance leases and provision for impairment amounting to SR 11.9 million (December 31, 2019: SR 92.2 million).

4.3 Modification of net investment in finance leases

	Notes	June 30, 2020 (Unaudited)	Additions	September 30, 2020 (Unaudited)
Net investment in finance leases – carrying amount before modification		558,223,254	-	558,223,254
Modification loss	4.3.1	(23,959,017)	(832,479)	(24,791,496)
		534,264,237	(832,479)	533,431,758
Modification loss – extension of SAMA Deferred Payment Program	4.3.2 & 17	-	(13,587,828)	(13,587,828)
Net investment in finance leases – carrying amount after modification		534,264,237	(14,420,307)	519,843,930

4.3.1 Modification loss was recognised, and netted off against government grant, in these condensed interim financial statements considering the modification was performed as per SAMA instructions (Deferred Payment Program) and Small and Medium Enterprises General Authority ("Monsha'at") indirect lending initiative for liquidity bridge related to loans instalments deferrals and in substance to compensate modification loss. Government grant on SAMA profit free deposit was received on April 5, 2020 repayable in 36 equal installments starting from November 30, 2020, and for further extension of three-month an additional grant was received on October 05, 2020 repayable in 15 equal installments starting from February 2021, as disclosed in note 17 to these condensed interim financial statements. Government grant on Monsha'at loan was recognized in the condensed interim financial statements as a difference in the present value of the long-term loans due to indirect lending initiative provided by Monsha'at as disclosed in note 8, and note 17 to the condensed interim financial statements.

4.3.2 During September 2020, SAMA announced an extension to defer payments of lease rentals of qualified MSMEs for an additional three-month, which have been disclosed in note 17 in 'Extension of SAMA Deferred Payment Program'.

SAUDI ORIX LEASING COMPANY
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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE NINE-MONTHS PERIOD ENDED SEPTEMBER 30, 2020 (Unaudited)
(All amounts are in Saudi Riyals unless stated otherwise)

4. NET INVESTMENT IN FINANCE LEASES (continued)

4.4 Generating the term structure of Probability of Default (PD)

Loss rates are calculated using a 'flowrate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off. PD term structures are based on the default probability calculated on forward flow rates, average of past twenty-four months, adjusted by the outlook of the economy. The economic factor relating to GDP has been revised during the period considering the COVID-19 impact (Refer note 17 for details).

4.5 Sensitivity Analysis

Assuming all other factors remain constant, the sensitivity analysis of the expected credit loss allowance of finance lease as on September 30, 2020 is as follows:

	Increase in ECL as on September 30, 2020
Use of maximum of forward flow rates instead of average flow rates	<u>14,375,765</u>
Increase in economic factor by 10%	<u>3,413,708</u>
Increase in loss given default by 10%	<u>4,011,752</u>

5. NET INVESTMENT IN MURABAHA FINANCE

5.1 Reconciliation between gross and net murabaha finance is as follows:

	Notes	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Murabaha finance receivables		200,563,393	164,109,716
Unearned murabaha finance income		(26,044,655)	(24,870,993)
Net investment in murabaha finance		<u>174,518,738</u>	<u>139,238,723</u>
Modification loss	5.3 & 17	(6,242,221)	-
Income on modified murabaha finance	10	1,200,372	-
Provision for impairment	5.2	(371,365)	(61,414)
		<u>169,105,524</u>	<u>139,177,309</u>
Current maturity		(44,871,999)	(42,493,236)
		<u>124,233,525</u>	<u>96,684,073</u>

5.2 The movement in the provision for impairment on murabaha receivables was as follows:

	Notes	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Balance as at January 1		61,414	30,111
Provision for the period/year, net		309,951	31,303
Balance at the end of the period/year	5.2.1	<u>371,365</u>	<u>61,414</u>

5.2.1 Stage wise analysis of murabaha finance receivables and provision for impairment is as follow:

	September 30, 2020				December 31, 2019 (Audited) Total
	Performing (Stage 1)	Under- performing (Stage 2)	Non- performing (Stage 3)	Total	
Net investment in murabaha finance	163,934,030	9,616,939	967,769	174,518,738	139,238,723
Provision for impairment	171,021	46,184	154,160	371,365	61,414

SAUDI ORIX LEASING COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE NINE-MONTHS PERIOD ENDED SEPTEMBER 30, 2020 (Unaudited)
(All amounts are in Saudi Riyals unless stated otherwise)

5. NET INVESTMENT IN MURABAHA FINANCE (continued)

5.3 Modification of net investment in murabaha finance

	Note	September 30, 2020 (Unaudited)
Net investment in murabaha finance – carrying amount before modification		79,569,127
Modification loss	5.3.1	(4,877,268)
Modification loss – extension of SAMA Deferred Payment Program	4.3.2	<u>(1,364,953)</u>
Net investment in finance leases – carrying amount after modification		<u>73,326,906</u>

5.3.1 Modification loss was recognised, and netted off against government grant, in these condensed interim financial statements. (Refer note 4.3.1 for details).

5.4 Generating the term structure of Probability of Default (PD)

Loss rates are calculated using a 'flowrate' method as disclosed in note 4.4 in these condensed interim financial statements.

5.5 Sensitivity Analysis

Assuming all other factors remain constant, the sensitivity analysis of the expected credit loss allowance on murabaha finance as on September 30, 2020 is as follows:

	Increase in ECL as on September 30, 2020
Use of maximum of forward flow rates instead of average flow rates	<u>527,013</u>
Increase in economic factor by 10%	<u>74,516</u>
Increase in loss given default by 10%	<u>1,719</u>

6. ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES

	Note	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Advance to suppliers		20,351,864	16,551,047
Receivable from shareholders for prior period/year zakat settlement		10,531,367	30,674,519
Government grant – receivable from SAMA	17	4,905,833	-
Prepaid expenses		2,264,470	2,786,981
Loans and advances to staff		2,118,362	1,929,647
Deferred value added tax and refund		3,440,114	2,061,822
Other receivable from leases		2,046,319	746,788
Other		<u>2,452,645</u>	<u>187,474</u>
		<u>48,110,974</u>	<u>54,938,278</u>

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7. CASH AND BANK BALANCES

		September 30, 2020	December 31, 2019
	Note	(Unaudited)	(Audited)
Cash at banks		9,253,883	38,904,186
Cash in hand		11,973	21,035
Cash and cash equivalents		9,265,856	38,925,221
Bank overdraft		-	(29,085,031)
		9,265,856	9,840,190
Term deposits	7.1	165,000,000	-
		<u>174,265,856</u>	<u>9,840,190</u>

7.1 This represents commission bearing term deposit held with local banks with a maturity between 90 - 180 days at prevailing market rate.

8. LOANS, GRANTS AND LEASE LIABILITY

		September 30, 2020	December 31, 2019
	Notes	(Unaudited)	(Audited)
Long-term loans – Monsha'at	8.1	126,797,994	114,112,698
Profit-free deposit payable to SAMA	17	178,400,000	-
Government grant on Monsha'at loan and SAMA	17	(31,360,270)	-
Accrued special commission	8.2	7,587,616	113,723
		281,425,340	114,226,421
Lease liability		1,079,167	1,064,463
		282,504,507	115,290,884
Less: current maturity		(70,397,091)	(42,105,934)
		<u>212,107,416</u>	<u>73,184,950</u>

8.1 Long term loans were obtained from Social Development Bank ("SDB") in relation to Small and Medium Enterprises General Authority ("Monsha'at") program for financing of small and medium enterprises in the Kingdom of Saudi Arabia. Monsha'at's initiative of indirect lending resulted in a postponement of all due instalments from the Company for the period from March 2020 till March 2021 for a period of one year. Further, a new loan was obtained during the period. The loans are payable by January 2024.

8.2 Special commission expense includes an amount of SR 7,061,013 (September 30, 2019: Nil) commission costs on SAMA profit free deposit and deferred Monsha'at loan.

9. ACCRUED EXPENSES AND OTHER LIABILITIES

	September 30, 2020	December 31, 2019
	(Unaudited)	(Audited)
Proposed lease related payables	9,620,484	12,732,365
Employee related payables	3,972,004	6,338,114
Leased assets insurance claims and premium payable	8,517,959	6,303,437
Legal and professional charges	4,710,868	457,920
Charity payable	3,591,172	3,195,892
Other	4,624,832	3,969,566
	<u>35,037,319</u>	<u>32,997,294</u>

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10. REVENUE

Income on finance lease and murabaha is recorded using original effective rate, the amount of SR 7,061,013 is the difference of original effective rate and revised rate, arising due to modification of contractual terms performed as per the SAMA instructions (Deferred Payment Program) and Monsha'at indirect lending initiative program. A similar amount has been recorded in special commission expense, arising due to unwinding of SAMA profit free deposit and Monshaat indirect lending initiative as disclosed in note 8.2, and note 17 to the condensed interim financial statements.

Revenue also includes front-end fees and income earned on short-term time deposits.

11. ZAKAT AND INCOME TAX

During the period ended March 31, 2019, the Company received and signed off a settlement agreement with GAZT for the financial years ended December 31, 2014 through 2018. As per the agreement, the Company is required to pay zakat of SR 16,455,263 (which was calculated based on 10% of accounting profit) payable in instalments over a period of five years from 2019 to 2023, this relates to years 2014 to 2017 and for the financial year 2018 an amount of SR 3,844,872 as per the Ministerial Resolution No. 1260.

12. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses mainly pertain to the legal costs for the nine-month period ended September 30, 2020, amounting to SR 4,823,532 (September 30, 2019: SR 2,367,997).

13. BASIC AND DILUTED (LOSS) / EARNINGS PER SHARE

The basic and diluted earnings per share are calculated by dividing the profit for the period attributable to the shareholders by weighted average number of shares (55,000,000) at the end of the period.

14. COMMITMENTS

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Lease contracts not yet executed	7,884,124	10,890,276
Operating lease commitments for office premises – 2 years	3,700,000	3,700,000
Bank guarantees issued on behalf of the Company	2,000,000	2,000,000

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15. RELATED PARTY TRANSACTIONS AND BALANCES

In the ordinary course of its activities, the Company transacts business with related parties, which are related to its shareholders. The Company obtains technical assistance from ORIX Corporation, Japan and ORIX Leasing Pakistan Limited at no cost under an arrangement. Significant related party transactions and balances are as follows:

Transactions:	For the nine-month ended September 30, 2020 (Unaudited)	For the nine-month ended September 30, 2019 (Unaudited)
The Saudi Investment Bank – shareholder		
Special commission and other bank charges paid	37,351	112,716
Profit earned on term deposit	1,235,712	-
Lease participation – payments*	1,221,538	42,913,410
Lease participation receipts – management fee and other*	83,325	501,471
The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company, KSA- affiliate		
Premium for insurance and other related payments-net	3,296,929	1,836,682
Amlak International for Real Estate Development and Finance Company, KSA – affiliate		
Rent and premises related income on subletting to an affiliate	132,653	1,193,878
Key Management Personnel		
Salaries and other short-term employee benefits	6,999,470	6,684,042
Termination benefits	513,843	520,350

* The Company has certain lease transactions, in which the related party has a non-recourse participation. The Company charges a fee for administration of the portfolio. The value of such portfolio was SR 4.0 million as at September 30, 2020 (December 31, 2019: SR 5.1 million).

Balances:	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
The Saudi Investment Bank – shareholder		
Current accounts	7,743,937	11,411,435
Profit accrued on term deposit	1,091,096	-
Term deposit	150,000,000	-
Bank overdraft	-	29,085,031
Lease participation receivable	14,874	37,328
The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company, KSA- affiliate		
Advance against insurance premium, net	369,569	2,421,968
Amlak International for Real Estate Development and Finance Company, KSA- affiliate		
Rent and premise related receivable on subletting	-	132,653
Key Management Personnel		
Employees' end of service benefits	2,550,560	3,342,838
Loans to key management of the Company	341,859	252,086
Directors' meeting attendance fee payable	675,000	900,000

16. DIVIDENDS

The Board of Directors, through a circular resolution, on March 16, 2020 proposed an annual dividend of SR 0.671 per share (2018: SR 0.5 per share) for the year ended December 31, 2019 amounting to SR 36.9 million (2018: SR 27.5 million). The shareholders approved the distribution at the General Assembly Meeting, which was held in April 2020.

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17. IMPACT OF COVID-19 ON EXPECTED CREDIT LOSSES ("ECL") AND SAMA PROGRAMS

The Coronavirus ("COVID-19") pandemic continues to disrupt global markets as many geographies are beginning to experience a "second wave" of infections despite having previously controlled the outbreak through aggressive precautionary measures such as imposing restrictions on travel, lockdowns and strict social distancing rules. The Government of Kingdom of Saudi Arabia ("the Government") however has managed to successfully control the outbreak to date, owing primarily to the effective measures taken by the Government, following which the Government has now ended the lockdowns and has begun taking phased measures to normalize international travel and resume Umrah pilgrimages.

The Company continues to be cognisant of both the micro and macroeconomic challenges that COVID-19 has posed, the teething effects of which may be felt for some time and is closely monitoring its exposures at a granular level.

The prevailing economic conditions do require the Company to continue to revise certain inputs and assumptions used for the determination of expected credit losses ("ECL"). These primarily revolve around either adjusting macroeconomic factors used by the Company in the estimation of ECL. As the situation continues to be fluid, the management considers certain effects cannot be fully incorporated into the ECL model calculations at this point in time. Accordingly, management's ECL assessment includes macroeconomic analysis. The Company has therefore recognised overlays of SR 6.3 million as at 30 September 2020. The Company will continue to reassess as more reliable data becomes available and accordingly determine if any adjustment in the ECL is required in subsequent reporting periods.

SAMA programs and initiatives launched

In response to COVID-19, SAMA launched the Private Sector Financing Support Program ("PSFSP") in March 2020 to provide the necessary support to the Micro Small and Medium Enterprises ("MSME") as per the definition issued by SAMA via Circular No. 381000064902 dated 16 Jumada II 1438H. The PSFSP mainly encompasses the following programs:

- Deferred payments program; and
- Funding for lending program.

As part of the deferred payments program, the Company was required to defer payments for six months on finance lease and murabaha contracts to those companies that qualify as MSMEs. The payment reliefs were considered as short-term liquidity support to address the borrower's potential cash flow issues. The Company effected the payment reliefs by deferring the instalments falling due within the period from March 14, 2020 to September 14, 2020 for a period of six months. During April 2020, the management notified 227 MSMEs customers, having 652 contracts (623 finance lease and 29 murabaha finance), of the modified payment schedule and requested their acknowledgement. In case of no acknowledgment received within three working days, the management assumed the acceptance of the modified payment schedule by the MSMEs. The accounting impact of these changes in terms of the finance lease and murabaha contracts has been assessed and are treated as per the requirements of IFRS 9 as modification in terms of arrangement. This has resulted in the Company recognising a day 1 modification loss of SR 21.8 million as at March 31, 2020. In the absence of other factors, participation in the PSFSP is not considered a significant increase in credit risk.

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17. IMPACT OF COVID-19 ON EXPECTED CREDIT LOSSES ("ECL") AND SAMA PROGRAMS (continued)

Subsequently in May 2020, SAMA notified to defer all payments due from Stage (2) eligible MSME customers that are currently servicing their loans for a period of six months. In this respect, the management notified 22 MSMEs customers, having 48 finance lease contracts of the modified payment schedule. Furthermore, the Company notified 3 MSMEs customers (which were not classified as MSMEs as on March 14, 2020) having 3 finance lease contract of the modified payment schedule as it was highlighted that they were covered under MSMEs guidelines received from SAMA. This accumulatively has resulted in the Company recognising a day 1 modification loss of SR 2.9 million.

In order to compensate all the related cost that the Company is expected to incur under the SAMA, the Company has received during April 2020, SR 178.4 million of profit free deposit from SAMA. The benefit of the subsidised funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements.

During April 2020, the management was notified that government grant on SAMA profit free deposit is repayable in 36 equal installments starting from November 30, 2020 which was previously recognized as 30 equal installments starting from September 30, 2020. This has resulted in a gain on SAMA profit-free deposit amounting to SR 3.6 million in addition to the recognized gain amounting to SR 15.9 million.

This resulted in a total income of SR 19.5 million which has been recognized in the condensed interim statement of income. The management has exercised certain judgements in the recognition and measurement of this grant income.

Extension of SAMA Deferred Payment Program

During September 2020, SAMA announced an extension to defer payments for an additional three-month on finance lease and murabaha contracts to those companies that qualify as MSMEs and have instalments falling due within the period from September 14, 2020 to December 14, 2020. Accordingly 595 contracts were deferred (576 finance lease and 19 murabaha finance). The accounting impact of these changes in terms of the finance lease and murabaha contracts has been assessed and are treated as per the requirements of IFRS 9 as modification in terms of arrangement. This resulted in the Company recognising a day 1 modification loss of SR 15.0 million during the period ended September 30, 2020.

The Company has received during October 2020, SR 92.2 million of profit free deposit from SAMA repayable in 15 equal installments starting from February 07, 2021. The benefit of the subsidised funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. This has resulted in a gain on SAMA profit-free deposit amounting to SR 4.9 million accounted for the three-month period ended September 30, 2020. The change in repayment terms of SAMA deposit of SR 178.4 million has resulted in a gain of SR 1.5 million during the three-month period ended September 2020.

	Current quarter deferral	Prior period adjustment	September 30, 2020 (Unaudited)	September 30, 2019 (Unaudited)
Modification (loss) on extension of SAMA deferred payment program	14,952,781	832,479	15,785,260	-
Gain on additional government grant – profit free deposit from SAMA	<u>(4,905,833)</u>	<u>(1,466,576)</u>	<u>(6,372,409)</u>	-
Modification loss on extension of SAMA deferred payment program net of prior period adjustment	<u>10,046,948</u>	<u>(634,097)</u>	<u>9,412,851</u>	-

Since the inception of the deferred payments program by SAMA and by the end of Q3 2020, the Company has recognised SR 44.6 million of related modification losses of which SR 7.06 million have been unwound.

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17. IMPACT OF COVID-19 ON EXPECTED CREDIT LOSSES (“ECL”) AND SAMA PROGRAMS (continued)

Monsha’at – Indirect Lending Initiative (which in substance part of the SAMA program and initiatives launched)

Monsha’at’s initiative of indirect lending resulted in a postponement of all due instalments from the Company for the period from March 2020 till March 2021, for a period of one year. In this respect, during April 2020, the management notified 47 MSMEs customers financed through Monsha’at loan, with 67 contracts (55 finance lease and 12 murabaha finance) of the modified payment schedule. In case of no acknowledgment received within three working days, the management assumed the acceptance of the modified payment schedule by the Monsha’at MSMEs customer. The Company has effected the payment reliefs by deferring the instalments falling due within the period from March 2020 for a period of one year. The accounting impact of these changes in terms of the finance lease and murabaha contracts has been assessed and is treated as per the requirements of IFRS 9 as modification in terms of arrangement. This has resulted in the Company recognising a day 1 modification loss of SAR 4.9 million as at March 31, 2020. The revision of Monsha’at loan amortization by the Company has resulted in a gain of SR 1.1 million during the three-month period ended September 2020.

18. RISK MANAGEMENT

Liquidity risk and going concern

The Company is aware of the need to keep a close focus on liquidity management during this period and has enhanced its daily monitoring of liquidity. The Company acknowledges the timely action of SAMA and other government bodies in providing support and assurance to the financial markets.

From the perspective of liquidity risk and going concern, no changes were made in the objectives, policies and processes for managing capital and management monitors the maturity profile to ensure adequate liquidity is maintained. The table below summarizes the maturity profile of the Company’s liabilities based on contractual undiscounted cash flows:

	Within 3 months	4 to 12 months	1 to 5 years	No fixed maturity	Total
September 30, 2020 (Unaudited)					
Accounts payable	62,655,558	-	-	-	62,655,558
Accrued expenses and other liabilities	35,037,319	-	-	-	35,037,319
Zakat	2,695,461	751,572	7,898,526	-	11,345,559
Long-term loans and lease liabilities	10,990,278	72,799,110	224,447,588	-	308,236,976
Employees’ EOSB	-	-	-	19,312,215	19,312,215
	111,378,616	73,550,682	232,346,114	19,312,215	436,587,627
December 31, 2019 (Audited)					
Accounts payable	49,153,206	-	-	-	49,153,206
Accrued expenses and other liabilities	32,997,294	-	-	-	32,997,294
Bank overdraft	29,085,031	-	-	-	29,085,031
Zakat and income tax	-	14,332,088	7,898,526	-	22,230,614
Long-term loans and lease liabilities	36,759,733	34,536,159	74,046,651	-	145,342,543
Employees’ EOSB	-	-	-	17,428,885	17,428,885
	147,995,264	48,868,247	81,945,177	17,428,885	296,237,573

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18. RISK MANAGEMENT (continued)

As at condensed interim statement of financial position date, current ratio and gearing ratio, supporting going concern assumption analysis was as follows:

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Equity	845,429,583	874,537,439
Liabilities	410,855,158	266,185,914
Total capital structure	<u>1,256,284,741</u>	<u>1,140,723,353</u>
Gearing ratio	<u>32.70%</u>	<u>23.33%</u>
Current ratio	<u>4.21</u>	<u>4.32</u>

Operational risk management

The Company responded quickly to the COVID-19 crisis and established an internal group to focus on the impacts of the pandemic and the effects on the Company. Furthermore, it put in place contingency plans allowing a significant proportion of employees to work from home. Employees considered essential to the operations of the Company were always permitted to visit the Company's offices on a restricted basis whilst following government guidelines.

Credit risk management

The Company has strengthened its credit risk management policies to address the fast changing and evolving risks posed by the current circumstances. These include review of concentrations at granular economic sector, region, counterparty level including consideration of impacts of government and SAMA support, collateral protection, timely review and rating action and appropriately restructuring loans where required.

19. DATE OF APPROVAL OF THESE CONDENSED INTERIM FINANCIAL STATEMENTS

The accompanying condensed interim financial statements were approved by the Board of directors on October 26, 2020.