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

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019, AND,
INDEPENDENT AUDITOR'S REPORT

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

FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019

	Pages
Independent Auditor's Report	1 - 2
Statement of financial position	3
Statement of income	4
Statement of other comprehensive income	5
Statement of changes in equity	6
Statement of cash flows	7
Notes to the financial statements	8 - 35

pwc

Independent auditor's report to the shareholders of Saudi ORIX Leasing Company (A Saudi Closed Joint Stock Company)

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Saudi ORIX Leasing Company (the "Company") as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia.

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at December 31, 2019;
- the statement of income for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing as endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the code of professional conduct and ethics, endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS as endorsed in the Kingdom of Saudi Arabia and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or taken together, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

PricewaterhouseCoopers, License No. 25,
Kingdom Tower, P.O. Box 8282, Riyadh 11482, Kingdom of Saudi Arabia
T: +966 (11) 211-0400, F: +966 (11) 211-0401, www.pwc.com/middle-east

Independent auditors' report to the shareholders of Saudi ORIX Leasing Company (A Saudi Closed Joint Stock Company) (continued)

***Auditors' responsibilities for the audit of the financial statements** (continued)*

As part of an audit in accordance with ISAS, as endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers

By: ______________________

Bader I. Benmohareb
License Number 471

February 26, 2020

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

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2019
(All amounts in Saudi Riyals unless stated otherwise)

ASSETS	Notes	2019	2018
Non-current assets:			
Property and equipment	4	2,236,661	710,976
Intangible assets	4	260,190	362,480
Equity investments designated at FVOCI	5	892,850	892,850
Net investment in finance leases	6	315,478,752	359,164,812
Net investment in murabaha finance	7	96,684,073	12,599,093
		415,552,526	373,730,211
Current assets:			
Current maturity of net investment in finance leases	6	588,814,092	676,027,127
Current maturity of net investment in murabaha finance	7	42,493,236	3,565,692
Advances, prepayments and other receivables	8	54,938,278	18,249,628
Derivative financial instruments	14	-	1,657,447
Cash at bank and in hand	9	38,925,221	136,854,497
		725,170,827	836,354,391
TOTAL ASSETS		1,140,723,353	1,210,084,602
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	10	550,000,000	550,000,000
Statutory reserve	10	85,349,990	84,608,524
Retained earnings		239,187,449	218,715,570
Cash flow hedge reserve	14	-	1,657,447
Total equity		874,537,439	854,981,541
LIABILITIES			
Non-current liabilities:			
Long-term loans	11	73,184,950	37,777,578
Zakat and income tax	12	7,898,526	-
Employees' end of service benefits	13	17,428,885	16,415,563
		98,512,361	54,193,141
Current liabilities:			
Bank overdraft	9	29,085,031	-
Current maturity of long-term loans and lease liabilities	11	42,105,934	225,831,866
Accounts payable	15	49,153,206	34,290,169
Zakat and income tax	12	14,332,088	4,199,804
Accrued expenses and other liabilities	16	32,997,294	36,588,081
		167,673,553	300,909,920
Total liabilities		266,185,914	355,103,061
TOTAL EQUITY AND LIABILITIES		1,140,723,353	1,210,084,602
Commitments	21		

The accompanying notes (1) through (29) form an integral part of these financial statements.

Chief Executive Officer

Director

Chief Financial Officer

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

STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31, 2019
(All amounts in Saudi Riyals unless otherwise stated)

	Notes	2019	2018 (Restated)
REVENUE	17	**108,154,618**	111,330,568
EXPENSES			
Special commission expense	18	**4,629,693**	9,308,909
Provision for impairment on financial assets	6 & 7	**2,457,595**	483,435
Salaries and employee related expenses		**38,400,636**	37,302,506
General and administrative expenses	19	**6,913,331**	6,290,732
Depreciation and amortization	4	**2,235,933**	508,932
Total expenses		**54,637,188**	53,894,514
Income for the year before zakat & income tax		**53,517,430**	57,436,054
Zakat expense			
- Current year	12	**7,468,203**	991,501
- Prior years	12	**36,818,943**	-
Income tax expense	12	**1,815,625**	3,917,108
Income for the year after zakat & income tax		**7,414,659**	52,527,445
Earnings per share - basic and diluted	20	**0.13**	0.96

The accompanying notes (1) through (29) form an integral part of these financial statements.

Chief Executive Officer

Director

Chief Financial Officer

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

STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2019
(All amounts in Saudi Riyals unless stated otherwise)

	Notes	2019	2018 (Restated)
Income for the year after zakat & income tax		7,414,659	52,527,445
Other comprehensive income			
Items that will not be reclassified to statement of income in subsequent periods			
Actuarial gains on employees' end of service benefits	13	407,940	339,455
Items that are or maybe reclassified to statement of income in subsequent periods			
Cash flow hedges - effective portion of changes in fair value	14	(1,657,447)	(1,255,096)
Total comprehensive income for the year		6,165,152	51,611,804

The accompanying notes (1) through (29) form an integral part of these financial statements.

Chief Executive Officer

Director

Chief Financial Officer

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

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2019
(All amounts in Saudi Riyals unless stated otherwise)

	Notes	Share capital	Statutory reserve	Retained earnings (Restated)	Cash flow hedge reserve	Total equity
Balance as at December 31, 2018		550,000,000	84,608,524	218,715,570	1,657,447	854,981,541
Total comprehensive income:						
Income for the year after zakat and income tax		-	-	7,414,659	-	7,414,659
Other comprehensive income		-	-	407,940	(1,657,447)	(1,249,507)
Transfer to statutory reserve		-	741,466	(741,466)	-	-
Transactions with shareholders of the Company, recorded directly in shareholders' equity:						
Dividend paid		-	-	(27,500,000)	-	(27,500,000)
Zakat recovered		-	-	7,135,925	-	7,135,925
Prior period income tax refund	12 (c)	-	-	(836,806)	-	(836,806)
Income tax recovered		-	-	3,917,108	-	3,917,108
Recoverable from Saudi shareholders for prior period zakat settlement	8	-	-	30,674,519	-	30,674,519
Total transactions with shareholders of the Company		-	-	13,390,746	-	13,390,746
Balance as at December 31, 2019		550,000,000	85,349,990	239,187,449	-	874,537,439
Balance as at December 31, 2017		550,000,000	78,864,919	224,170,627	2,912,543	855,948,089
Adoption of IFRS 9		-	-	(32,712,144)	-	(32,712,144)
Balance as at January 01, 2018		550,000,000	78,864,919	191,458,483	2,912,543	823,235,945
Total comprehensive income:						
Income for the year after zakat and income tax - (restated)	12.2	-	-	52,527,445	-	52,527,445
Other comprehensive income	13 & 14	-	-	339,455	(1,255,096)	(915,641)
Transfer to statutory reserve	10	-	5,743,605	(5,743,605)	-	-
Transactions with shareholders of the Company, recorded directly in shareholders' equity:						
Dividend paid	28	-	-	(27,500,000)	-	(27,500,000)
Zakat recovered		-	-	2,874,092	-	2,874,092
Income tax recovered		-	-	4,759,700	-	4,759,700
Total transactions with shareholders of the Company		-	-	(19,866,208)	-	(19,866,208)
Balance as at December 31, 2018		550,000,000	84,608,524	218,715,570	1,657,447	854,981,541

The accompanying notes (1) through (29) form an integral part of these financial statements.

Chief Executive Officer | Director | Chief Financial Officer

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

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2019
(All amounts in Saudi Riyals unless stated otherwise)

	Notes	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Income for the year before zakat & income tax		53,517,430	57,436,054
Adjustments for:			
Depreciation of property and equipment	4	2,120,113	389,062
Amortisation of intangible assets	4	115,820	119,870
Special commission expense	18	4,629,693	9,308,909
Provision for impairment on financial assets	6 & 7	2,457,595	483,435
Gain on disposal of property and equipment		-	(20,467)
		62,840,651	67,716,863
Changes in operating assets and liabilities:			
Net investment in finance leases & murabaha finance		5,428,976	135,092,861
Advances, prepayments and other receivables		(6,502,473)	(8,342,742)
Accounts payable		14,863,037	6,257,413
Accrued expenses and other liabilities		(3,532,408)	3,571,449
Employees' end of service benefits, net	13	1,421,262	806,805
Net cash generated from operating activities		74,519,045	205,102,649
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment and intangible assets	4	(364,409)	(123,271)
Proceeds from disposal of property and equipment		-	20,467
Net cash used in investing activities		(364,409)	(102,804)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans	11	201,250,000	50,000,000
Repayments of loans	11	(350,137,302)	(178,095,143)
Payment of lease liability	3.2	(1,850,000)	-
Special commission and other bank charges paid		(5,075,907)	(9,595,032)
Income tax paid on behalf of non-Saudi shareholders	12	-	(3,569,774)
Zakat paid on behalf of Saudi shareholders	12	(28,908,767)	-
Dividends paid, net of zakat and income tax recovered		(16,446,967)	(19,866,208)
Net cash used in financing activities		(201,168,943)	(161,126,157)
Net (decrease) / increase in cash and cash equivalents		(127,014,307)	43,873,688
Cash and cash equivalents at the beginning of the year		136,854,497	92,980,809
Cash and cash equivalents at the end of the year	9	9,840,190	136,854,497
Supplemental non-cash information			
Recognition of lease liability upon adoption of IFRS 16	3.2	2,832,419	-
Fair value change on cash flow hedges	14	(1,657,447)	(1,255,096)

The accompanying notes (1) through (29) form an integral part of these financial statements.

Chief Executive Officer	Director	Chief Financial Officer

(All amounts are in Saudi Riyals unless stated otherwise)

1. CORPORATE 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 21 Shawal 1421H (corresponding to January 16, 2001), non-industrial license number 99 dated 27 Safar 1421H (corresponding to May 31, 2000) issued by the Ministry of Commerce and Industry and Finance company license number 7/A Sh/201403 dated 27 /04/1435H (corresponding to February 27, 2014) issued by Saudi Arabian Monetary Authority ("SAMA"), through its five branches (2018: five branches) in the Kingdom of Saudi Arabia.

On 01 Rabi Al-Awwal 1440 (corresponding to November 10, 2018), the Company received no objection certificate from SAMA to conduct commodity murabaha business 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 objective of the Company is to provide lease financing for movable and immovable assets & murabaha financing to all economic sectors in the Kingdom of Saudi Arabia.

2. BASIS OF PREPARATION

The financial statements of the Company as at and for the year ended December 31, 2019 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organisation for Certified Public Accountants ("SOCPA").

The financial statements of the Company as at and for the year ended December 31, 2018 were prepared in compliance with 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 July 17, 2019, SAMA instructed the finance companies in the Kingdom of Saudi Arabia to account for zakat and income tax in the statement of income. This aligns with the IFRS and its interpretations as issued by the International Accounting Standards Board ("IASB") as endorsed in the Kingdom of Saudi Arabia and with the other standards and pronouncements that are issued by SOCPA (collectively referred to as "IFRS as endorsed in KSA").

Accordingly, the Company changed its accounting treatment for zakat and income tax by retrospectively adjusting the impact in line with International Accounting Standard 8, Accounting Policies, Changes in Accounting Estimates and Errors as disclosed in note 3.1(ii) and the effects of this change are disclosed in note 12.2 to the financial statements.

The financial statements are prepared on a going concern basis under the historical cost convention, modified to include the measurement at fair value of derivative financial instruments.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set out below

3.1 Changes in accounting policies and disclosures

New standards, amendments and interpretations adopted by the Company from January 1, 2019:

(i) IFRS 16 "Leases"

The Company has adopted IFRS 16 'Leases' ("IFRS 16") on its effective date January 1, 2019. The effect of adoption of new accounting policy is disclosed in note 3.2 of these financial statements and the accounting policies affected by the new standard are as follows:

(a) Company as a lessee: Policy applicable from January 1, 2019

Leases are recognised as a right-of-use asset and a corresponding liability, at the date at which the leased asset is available for use by the Company. Assets and liabilities arising from a lease are initially measured on a present value basis.

Lease liabilities

Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, if that rate can be determined, or the Company's incremental borrowing rate.

Lease payments included in the measurement of lease liabilities comprise the following:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Subsequently, the lease liabilities are measured at amortised cost using the effective interest rate method. They are re-measured when there is a change in future lease payments arising from a change in rate, or if Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liabilities are re-measured in this way, a corresponding income adjustment is made to the carrying amount of the right-of-use asset, or is recorded in statement of income if the carrying amount of right-of-use asset reduced to zero.

Right-of-use assets

Right-of-use assets are initially measured at cost, comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- restoration costs.

Refundable security deposits are not included in the initial measurement of a right-of-use asset. However, the difference between the nominal amount of the refundable security deposits and its fair value at the commencement of the lease represent, an additional lease payment which is prepaid and accordingly added to the initial carrying amount of the right-of-use asset and released to the statement of income over the lease term as part of the depreciation of those assets.

The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. In addition, the right-to-use assets is periodically reduced by impairment losses, if any, and adjusted for certain re-measurement of lease liabilities.

Lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The lease term assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

Short-term and low value leases

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the statement of income. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office equipment and furniture.

(b) Company as a lessee: Policy applicable before January 1, 2019

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

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Company is classified as a finance lease.

Finance leases that transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and a reduction in the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of income. A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statement of income on a straight-line basis over the lease term.

(ii) Change in the accounting policy in relation to accounting for Zakat and income tax:

As mentioned above, the basis of preparation has been changed for the year ended December 31, 2019 based on instructions from SAMA dated July 17, 2019. Previously, zakat and income tax was recognized in the statement of changes in shareholders' equity as per the SAMA circular no 381000074519 dated April 11, 2017. As per SAMA instructions dated July 17, 2019, zakat and income tax shall be recognized in the statement of income. The Company has accounted for this change in the accounting for zakat retrospectively and the effects of the above change are disclosed in note 12.2 to the financial statements. The change has resulted in decrease of reported income of the Company for the year ended December 31, 2018 by SR 4.91 million and had no impact on the statement of cash flows for the year ended December 31, 2018.

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 in KSA, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the country where the Company operates and generates taxable income, i.e. KSA. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Adjustments arising from the final income tax assessments are recorded in the period in which such assessments are made.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

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

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

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty needs to be followed.

The Company applies significant judgement in identifying uncertainties over income tax treatments. Since the Company operates in a complex multinational environment, it assessed whether the Interpretation had an impact on its financial statements.

Upon adoption of the Interpretation, the Company considered whether it has any uncertain tax positions. The Company determined, based on its tax compliance and transfer pricing study that it is probable that its tax treatments will be accepted by the taxation authorities.

Deferred income tax

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

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 income statement, 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 in other comprehensive income or directly in equity.

Zakat

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

All payments of zakat and income tax made on behalf of the shareholders are deducted from the first available dividends.

(All amounts are in Saudi Riyals unless stated otherwise)

3.2 Adoption of IFRS 16

The Company leases various properties, equipment and vehicles. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

The Company has adopted the new standard IFRS 16 from January 1, 2019, using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 - Leases ("IAS 17") and IFRIC 4 - Determining whether an Arrangement contains a Lease ("IFRIC 4"). Accordingly, the information presented in these financial statements for 2018 is not comparable in relation to and due to adoption of IFRS 16.

On adoption of IFRS 16, the Company recognised lease liabilities in relation to leases, which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 5.5%.

Right-of use assets were measured at an amount equal to the lease liability. Therefore, there was no impact on the retained earnings.

Right-of-use assets were adjusted by the amount of prepaid or accrued lease payments recognised in the statement of financial position as at December 31, 2018. Due to adoption of IFRS, Property and equipment increased by SR 3.3 million on January 1, 2019 and prepayments reduced by SR 0.462 million.

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- the accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases.
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Company has also elected not to apply IFRS 16 to contracts that were not identified as containing a lease under IAS 17 and IFRIC 4.

(i) The statement of financial position shows the following amounts relating to leases:

	December 31, 2019	January 1, 2019	December 31, 2018
Right-of-use assets			
Buildings	**1,497,691**	3,294,919	-
	1,497,691	3,294,919	-
Lease liabilities			
Non-current (1-3 years)	-	1,069,342	-
Current (less than 1 year)	**1,064,463**	1,763,077	-
	1,064,463	2,832,419	-

The table below shows the reconciliation of future lease payments discounted using the incremental borrowing rate with the lease liabilities related to right-of-use assets.

	December 31, 2019	January 1, 2019
Future lease payments	**1,079,167**	2,929,167
Discounting impact at incremental borrowing rate	**(14,704)**	(96,748)
	1,064,463	2,832,419

Right-of use assets are included in the line item "Property and equipment" and lease liabilities are included in "Loans and lease liabilities" in the statement of financial position.

(All amounts are in Saudi Riyals unless stated otherwise)

(ii) The statement of income shows the following amounts related to right-of-use assets:

	December 31, 2019	December 31, 2018
Depreciation charge of Right-of-use assets	1,797,228	-
Interest expense (included in special commission expense)	82,044	-

(iii) The total cash outflow for leases related to right-of-use assets during the year ended December 31, 2019 was SR 1.85 million.

3.3 New standards and interpretations not yet adopted

New accounting standards and amendments to standards and interpretations that are effective for annual periods beginning on or after January 1, 2020 and have not been applied or early adopted in preparing these financial statements. None of these standards is expected to have a significant effect on the financial statements of the Company.

Other new accounting standards and amendments to existing accounting standards, effective from January 01, 2019 do not have any significant effect on the Company's financial statements.

3.4 Significant accounting judgements, estimates and assumptions

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In the process of applying the Company's accounting policies, management has made estimates and judgments which are significant to the financial statements in relation to Provision for impairment on financial assets (Note 3.10(d))

The principal accounting policies adopted in the preparation of these financial statements, which are consistently applied, are set out below:

3.5 Property and equipment and intangible assets

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. Cost incurred to replace a component of an item of property and equipment is capitalised and the asset so replaced is retired from use. All other repairs and maintenance expenditure are charged to the statement of income during the period in which they are incurred.

Depreciation is charged using the straight-line method over its estimated useful life as mentioned below, after taking into account residual value.

	Years
Leasehold improvements	10
Office furniture and fixtures	5
Motor vehicles	5
Information technology equipment	4

Depreciation on additions is charged from the month the assets are available for use. No depreciation is charged in the month of disposal.

An asset's carrying amount is written-down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains/ losses on disposal of property and equipment, if any, are taken to the statement of income in the period in which they arise.

The assets residual values, useful lives and methods are reviewed and adjusted, if appropriate, at each statement of financial position date.

All assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Intangible assets comprise of computer softwares and licenses acquired by the Company and are measured at cost less accumulated amortization. Subsequent expenditure on software assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred. Amortization is calculated over the cost of the asset and are amortized on a straight-line basis over its estimated useful life, from the date on which it is available for use. The estimated useful life of intangible assets for the current and comparative periods is four years.

3.6 Net investment in finance leases & Murabaha finance

Finance Lease

Leases in which the Company transfers substantially all the risks and rewards incidental to the ownership of an asset to the lessees are classified as finance leases. Finance leases are recorded at the inception of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments.

Gross investment in finance leases include the total of future lease payments on finance leases (lease receivables), plus estimated residual amounts receivable. The difference between the lease receivables and the cost of the leased asset is recorded as unearned lease finance income and for presentation purposes, is deducted from the gross investment in finance leases. The Company takes down payments on leases with the right to set off against the residual value of leased assets and for presentation purposes, these down payments along with prepaid lease rentals are deducted from gross investment in finance leases.

Murabaha finance

Murabaha is an Islamic form of financing wherein the Company, based on request from its customers, purchases specific commodities and sells them to the customers at a price equals to the company's cost plus profit, payable on deferred basis in instalments.

3.7 Provisions

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

3.8 Assets classified as held for sale

The Company classifies a non-current asset, if any, as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

A non-current asset held for sale is carried at the lower of its carrying amount and the fair value less costs to sell. Impairment losses are recognised in the statement of income for any initial or subsequent write down of the non-current asset to fair value less costs to sell. Any rental income is charged to statement of income. Subsequent gains in fair value less costs to sell are recognised to the extent they do not exceed the cumulative impairment losses previously recorded. A non-current asset is not depreciated while classified as held for sale.

3.9 Derivative financial instruments and hedge accounting

The Company uses derivative financial instruments to hedge its loan exposure to interest rates. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

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

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.

Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been and are expected to be highly effective throughout the financial reporting periods for which they were / are designated.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, for forecast transactions, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the statement of income for the period.

3.10 Financial instruments

a) Initial recognition

The Company initially recognizes financial assets and financial liabilities when it becomes party to the contractual provisions of the financial instrument.

b) Classification

The Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through other comprehensive income (FVOCI);
- those to be measured subsequently at fair value through statement of income (FVSI); and
- those to be measured at amortised cost.

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective.

Classification and subsequent measurement of debt instruments depend on:

- The Company's business model for managing the asset; and
- The contractual cash flow characteristics of the asset.

Business model: The business model reflects how the Company manages the assets in order to generate cash flows. That is, whether the Company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVSI.

Solely payment of principal and profit (SPPP): Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Company assesses whether the financial instruments' cash flows represent solely payment of principal and profit (the "SPPP" test). In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. profit (or special commission income) includes only consideration for the time value of resources, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVSI.

Based on these factors, the Company classifies its debt instruments into one of the three measurement categories as described in (c) below.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

Classification and subsequent measurement of Company's equity instruments is described in (c) below.

c) Measurement

At initial recognition, the Company measures financial assets at its fair value plus or minus, in the case of a financial asset not at fair value through SOCI, transactions costs that are directly attributable to the acquisition of the financial asset. Transactions costs of financial assets carried at fair value through statement of income (FVSI) are expensed in SOCI.

Subsequent measurement of debt instruments

It depends on the Company's business model for managing the assets and the cash flow characteristics of the assets. There are three measurement categories into which the Company classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payment of principal and profit are measured at amortised cost. A gain or loss on a debt instrument that is subsequently measured at amortised cost and is not part of the hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Profit from these financial assets is calculated using the effective yield method.
- Fair value through other comprehensive income (FVOCI): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and profit, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income (OCI), except for the recognition of impairment gains or losses, profit on financial instrument (revenue) and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/ (losses). Profit from these financial assets is included in finance income using the effective yield method.

- Fair value through statement of income (FVSI): Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through statement of income. A gain or loss on a debt investment that is subsequently measured at fair value through statement of income and is not part of a hedging relationship is recognised in statement of income and presented net in the statement of income within other gains/ (losses) in the period in which it arises. Income from these financial assets is included in the finance income.

Subsequent measurement of equity instruments

The Company measures all equity investments at FVSI. The Company's management has elected to present fair value gains and losses on equity investments that are not held for trading in other comprehensive income (FVOCI). The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable. Currently, the Company holds only one equity investment.

There is no subsequent reclassification of fair value gains and losses to statement of income following the de-recognition of the investment and no impairment or reversal of impairment is recognised in statement of income. Cumulative gains and losses recognised in other comprehensive income are transferred to retained earnings on derecognition of the investment.

Dividends from such investments are recognized in statement of income as other income when the Company's right to receive payments is established unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in other comprehensive income.

d) Impairment of financial assets

The expected credit loss is estimated as the difference between all contractual cash flows that are due to the company in accordance with the contract and all the cash flows that the company expects to receive, discounted at the original effective interest rate used in measuring the lease receivable in accordance with IFRS 16 Leases. While calculating the cash flows expected to receive, probability of default and loss given default (i.e. the magnitude of the loss if there is a default) is considered and the related assessment is based on historical overdue data adjusted by factors that are specific to the lessees and forward-looking information which includes macro-economic factors such as Saudi Gross Domestic Product (GDP) and inflation.

The measurement of expected credit losses reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of resources; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Definition of default:

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

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

In assessing whether a borrower is in default, the Company considers indicators that are:

- qualitative - e.g. breaches of covenant;
- quantitative - e.g. overdue status and non-payment on another obligation of the same issuer to the Company; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Lease receivables

For investment in finance leases, "lease receivables", the Company applies the simplified approach as permitted by IFRS 9, which requires lifetime expected credit losses to be recognised from the initial recognition.

Murabaha receivables

The financial assets of the Company are categorized as follows:

1. Performing: these represent the financial assets that have not deteriorated significantly in credit quality since initial recognition or customers that have a low risk of default and a strong capacity to meet contractual cash flows.

   The Company's Murabaha receivables primarily represent corporate loans. Management believes that past due information is the most appropriate basis for assessing the increase in credit risk and based on management experience and analysis of other business, the balances which are less than 30 days past due do not result in significant increase in credit risk and are considered as performing.

   The Company measures the loss allowance for performing financial assets at an amount equal to 12-month expected credit losses. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime. 12-month expected credit losses are the portion of expected credit losses that results from default events on the financial assets that are possible within 12 months after the reporting date.

2. Underperforming: these represent the financial assets that have deteriorated significantly in credit quality since initial recognition but that do not have objective evidence of a credit loss event and is presumed if the customer is more than 30 days past due in making a contractual payment / installment.

   The Company measures the loss allowance for underperforming financial assets at an amount equal to lifetime expected credit losses i.e. expected credit losses that result from all possible default events over the life of the financial asset.

3. Non-performing: these represent financial assets that have objective evidence of impairment at the reporting date. A default on a financial asset is considered when the customer fails to make a contractual payment / installment within 90 days after they fall due.

   The Company measures the loss allowance for non-performing financial assets at an amount equal to lifetime expected credit losses.

Measurement of Expected Credit Loss (ECL):

The key inputs into the measurement of ECL are the term structure of the following variables:

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

The Company considers the probability of default upon initial recognition of asset and whether there has been a significant change in credit risk on an ongoing basis throughout each reporting period. The impairment model was developed considering probability of default and loss given default which were derived from historical data of the Company and are adjusted to reflect the expected future outcome which includes macroeconomic factors such as inflation and gross domestic product growth rate. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount.

For financial assets, a credit loss is calculated as the present value (at effective profit rate) of the difference between:

(a) The contractual cash flows that are due to the Company under the contract; and
(b) The cash flows that the Company expects to receive.

Write-offs

Financial assets are written-off only when:

- the lease or other receivable is at least three years past due, and
- there is no reasonable expectation of recovery.

Where financial assets are written-off, the Company continues to engage enforcement activities to attempt to recover the receivables due. Where recoveries are made, after write-off, are recognised as other income in the statement of income.

e) Financial liabilities - subsequent classification and measurement

All financial liabilities are subsequently measured at amortised cost using the effective yield method or FVSI. The company has not designated any financial liabilities at FVSI and it has no current intention to do so. The effective yield rate is the rate that discounts the estimated future cash payments through the expected life of the financial liability to the net carrying amount on initial recognition.

f) Derecognition of financial instruments

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. On derecognition of a financial asset the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in statement of income.

The Company derecognizes a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in statement of income.

3.11 Employees end of service benefits

Employee termination benefits are payable as a lump sum to all employees, under the terms and conditions of Saudi Labor Laws applicable on the Company, on termination of their employment contracts. End of service payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the laws of the Kingdom of Saudi Arabia.

The calculation of obligation is performed using the projected unit credit method to make a reliable estimate of the ultimate cost to the Company of the benefit payable to employees. Actuarial gains or losses on re-measurement of obligation are recognized immediately in the statement of other comprehensive income. Actuarial gains and losses represent changes in the present value of the obligation resulting from experience adjustments and the effects of changes in actuarial assumptions.

3.12 Fair value measurement

The Company measures financial instruments, such as derivatives, at fair value at each statement of financial position date.

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

3.13 Regular way Contracts

Regular way purchases or sales of financial assets are those, the contract which requires delivery of assets within the timeframe generally established by regulation or convention in the market. All "regular way" purchases and sales of financial assets are recognised on the settlement date, i.e. the date on which the asset is delivered to or by the Company.

3.14 Offsetting

Financial assets and liabilities are offset and are reported net in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and when the Company intends to settle on a net basis, or to realise the asset and settle the liability simultaneously. Similarly, income and expense items of such assets and liabilities are also offset and the net amount is reported in the financial statements.

3.15 Cash and cash equivalents

Cash and cash equivalents include cash in hand and at banks including bank overdrafts and investments with original maturity of less than three months from the contract date.

3.16 Functional and presentation currency

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

3.17 Foreign currency translation

Transactions in foreign currencies are translated at the rates of exchange prevailing at the dates of the respective transactions. At statement of financial position date, monetary assets and liabilities in foreign currencies are translated to Saudi Arabian Riyals at the prevailing exchange rates. Gains and losses resulting from changes in exchange rates are recognised as income or expense. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the initial transaction are not retranslated at statement of financial position date.

3.18 Proposed dividend and transfer between reserves

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

3.19 Revenue Recognition-Finance leases & Murabaha finance

Finance lease and murabaha finance income are recognised using the effective yield method. The effective yield is the rate that exactly discounts the estimated future cash flows through the expected life (or where appropriate, a short period) of the financial asset or liability to its carrying amount.

Service fees charged in respect of processing and other services are recognised as income as the services are rendered.

3.20 Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of special commission expense and other costs that the Company incurs in connection with the borrowing of funds.

3.21 Comparative

Certain comparative figures have been reclassified and restated where a change in accounting policy has been applied to conform to current year's presentation; however, the effect of those reclassifications is not significant.

(All amounts are in Saudi Riyals unless stated otherwise)

4 PROPERTY AND EQUIPMENT

	Leasehold improvements & Right of use assets	Office furniture and fixtures	Motor vehicles	Information technology equipment	Total
Cost:					
Balance as at January 1, 2019	**1,518,257**	**2,259,584**	**404,750**	**4,758,059**	**8,940,650**
IFRS 16 adoption (Note 3.2)	**3,294,919**	**-**	**-**	**-**	**3,294,919**
	4,813,176	**2,259,584**	**404,750**	**4,758,059**	**12,235,569**
Additions during the year	**1,000**	**17,664**	**47,500**	**284,715**	**350,879**
Balance as at December 31, 2019	**4,814,176**	**2,277,248**	**452,250**	**5,042,774**	**12,586,448**
Accumulated depreciation:					
Balance as at January 1, 2019	**1,134,967**	**2,170,901**	**355,683**	**4,568,123**	**8,229,674**
Charge for the year	**1,865,613**	**52,489**	**47,521**	**154,490**	**2,120,113**
Balance as at December 31, 2019	**3,000,580**	**2,223,390**	**403,204**	**4,722,613**	**10,349,787**
Net book value:					
As at December 31, 2019,	**1,813,596**	**53,858**	**49,046**	**320,161**	**2,236,661**
Cost:					
Balance as at January 1, 2018	1,470,307	2,238,853	454,750	4,711,369	8,875,279
Additions during the year	47,950	20,731	-	46,690	115,371
Disposals during the year	-	-	(50,000)	-	(50,000)
Balance as at December 31, 2018	1,518,257	2,259,584	404,750	4,758,059	8,940,650
Accumulated depreciation:					
Balance as at January 1, 2018	1,064,365	2,098,761	358,821	4,368,665	7,890,612
Charge for the year	70,602	72,140	46,862	199,458	389,062
Disposals during the year	-	-	(50,000)	-	(50,000)
Balance as at December 31, 2018	1,134,967	2,170,901	355,683	4,568,123	8,229,674
Net book value:					
As at December 31, 2018	383,290	88,683	49,067	189,936	710,976

The Company also holds computer software and licenses with a cost amounting to SR 1,560,661 (2018: SR 1,547,131) and written down value amounting to SR 260,190 (2018: SR 362,480). Amortization charge for the year amounts to SR 115,820 (2018: SR 119,870).

5 EQUITY INVESTMENT DESIGNATED AT FVOCI

The Company made an investment amounting to SR 892,850 for 89,285 shares at SR 10 each share representing 2.3% ownership in the share capital of "Saudi Leasing For Contract Registration Company". The Registration Company has been formed for registration of contracts relating to financial leases, amendments, registration and transfer of title deeds of the assets under the finance leases.

Equity investment designated at fair value is classified under level 3 of the fair value hierarchy.

(All amounts are in Saudi Riyals unless stated otherwise)

6 NET INVESTMENT IN FINANCE LEASES

6.1 Reconciliation between gross and net investment in finance leases are as follows:

	2019	2018
Lease receivables	**1,320,288,413**	1,500,131,126
Residual value	**727,632,292**	852,213,410
Gross investment in finance leases	**2,047,920,705**	2,352,344,536
Non-refundable security deposits	**(719,987,975)**	(844,187,681)
Prepaid lease rentals	**(55,418,187)**	(71,176,466)
Net receivables	**1,272,514,543**	1,436,980,389
Unearned lease finance income	**(172,343,386)**	(180,670,339)
Net investment in finance leases	**1,100,171,157**	1,256,310,050
Provision for impairment	**(195,878,313)**	(221,118,111)
	904,292,844	1,035,191,939
Current maturity	**(588,814,092)**	(676,027,127)
	315,478,752	359,164,812

6.2 The maturity of the gross investment in finance leases (i.e. minimum lease payments ("MLPs") and net investment in finance leases (i.e. present value of MLPs) is as follows:

	2019		2018	
	MLPs	PV of MLPs	MLPs	PV of MLPs
Not later than one year	**988,851,158**	**588,814,092**	1,089,293,605	676,027,127
Later than one year and less than five years	**1,058,348,508**	**510,644,404**	1,251,412,884	574,955,439
Later than five years	**721,039**	**712,661**	11,638,047	5,327,484
	2,047,920,705	**1,100,171,157**	2,352,344,536	1,256,310,050

6.3 The movement in the provision for impairment of lease receivables was as follows:

	Note	2019	2018
Balance as at the beginning of the year (*as per IAS 39*)		-	187,952,643
Adjustment on adoption of IFRS 9		-	32,712,144
Balance at the beginning of the year (*as per IFRS 9*)		**221,118,111**	220,664,787
Provision for the year, net		**2,426,292**	453,324
Bad debts written-off		**(27,666,090)**	-
Balance at the end of the year	6.3.1	**195,878,313**	221,118,111

6.3.1 Portfolio provision analysis for investment in finance leases

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

December 31, 2018	**Net investment in finance lease**	**Provision**	**Expected Loss rates**
Not yet due	743,447,451	1,674,437	0.0% - 0.58%
1-90 days	217,098,792	2,216,732	0.59% - 3.20%
91-180 days	35,491,935	1,317,671	3.21% - 10.71%
181-365 days	7,433,012	2,104,042	10.72% - 48.77%
Above 365 days and Specific accounts	252,838,860	213,805,229	48.78% - 100%
	1,256,310,050	221,118,111	

(All amounts are in Saudi Riyals unless stated otherwise)

7 NET INVESTMENT IN MURABAHA FINANCE

Reconciliation between gross and net murabaha finance is as follows:

	2019	2018
Murabaha finance receivables	**164,109,716**	19,478,268
Unearned murabaha finance income	**(24,870,993)**	(3,283,372)
Net investment in murabaha finance	**139,238,723**	16,194,896
Provision for impairment	**(61,414)**	(30,111)
	139,177,309	16,164,785
Current maturity	**(42,493,236)**	(3,565,692)
	96,684,073	12,599,093

7.1 The movement in the provision for impairment of murabaha receivables was as follows:

	Note	2019	2018
Balance at the beginning of the year		**30,111**	-
Provision for the year, net		**31,303**	30,111
Balance at the end of the year	7.2	**61,414**	30,111

7.2 Stage wise analysis of murabaha finance receivables and provision is as follow:

	Performing (Stage 1)	Under-performing (Stage 2)	Non-performing (Stage 3)	Total
December 31, 2019				
Net investment in murabaha finance	**138,278,416**	**960,307**	-	**139,238,723**
Provision for impairment	**(54,716)**	**(6,698)**	-	**(61,414)**
Net receivables	**138,223,700**	**953,609**	-	**139,177,309**
December 31, 2018				
Net investment in murabaha finance	16,194,896	-	-	16,194,896
Provision for impairment	(30,111)	-	-	(30,111)
Net receivables	16,164,785	-	-	16,164,785

8 ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES

	2019	2018
Receivable from Saudi shareholders for prior period zakat settlement	**30,674,519**	-
Advance to suppliers	**16,551,047**	10,399,306
Prepaid expenses	**2,432,676**	2,867,291
Loans and advances to staff	**1,929,647**	2,298,272
Prepaid rent	**158,238**	636,382
Value Added Tax, refund	**812,087**	445,075
Prepaid visa cost	**196,067**	122,525
Other receivables from lessees	**746,788**	558,594
Other	**1,437,209**	922,183
	54,938,278	18,249,628

(All amounts are in Saudi Riyals unless stated otherwise)

9 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the statement of cash flows comprise the following:

	2019	2018
Cash at banks	**38,904,186**	96,833,497
Term deposits of less than three month maturity	**-**	40,000,000
Cash in hand	**21,035**	21,000
Cash at bank and in hand	**38,925,221**	136,854,497
Bank overdraft	**(29,085,031)**	-
Cash and cash equivalent at the end of the year	**9,840,190**	136,854,497

10 SHARE CAPITAL AND STATUTORY RESERVE

As at December 31, 2019, the authorised, issued and fully paid-up share capital of the Company was SR 550 million divided into 55 million shares (December 31, 2018: 55 million shares) with a nominal value of SR 10 each.

The pattern of shareholding as of December 31, is as follows:

Shareholders	2019	2018
The Saudi Investment Bank ("SAIB")	**209,000,000**	209,000,000
Trade Development & Investment Group Limited	**176,000,000**	176,000,000
ORIX Corporation - Japan	**151,250,000**	151,250,000
ORIX Leasing Pakistan Limited - Pakistan	**13,750,000**	13,750,000
	550,000,000	550,000,000

10.1 The portion of Saudi to non-Saudi shareholders (including non-Saudi shareholders in SAIB) is 70% to 30% (2018: 69.05% to 30.95%) as of the reporting date.

10.2 As required by Regulations for Companies and Company's by-laws, 10% of the net income after zakat and income tax for the year is transferred to a statutory reserve. The Company may resolve to discontinue such transfers when the reserve totals 30% threshold of the capital. The reserve is not available for distribution.

11 LONG-TERM LOANS AND LEASE LIABILITIES

	Note	2019	2018
Long-term loans	11.1	**114,112,698**	50,000,000
Foreign currency loans	11.2	**-**	213,000,000
	11 3	**114,112,698**	263,000,000
Accrued special commission		**113,723**	779,719
		114,226,421	263,779,719
Lease liability	3.2	**1,064,463**	-
		115,290,884	263,779,719
Less: unamortised transaction costs		**-**	(170,275)
		115,290,884	263,609,444
Less: current maturity		**(42,105,934)**	(225,831,866)
Non-current portion for long-term loans		**73,184,950**	37,777,578

11.1 The Company received two new fixed rate loans in 2019 amounting to SR 85 million (2018: SR 50 million) 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. The loans are payable by January 01, 2023.

11.2 The Company had facilities from a foreign bank which carried special commission rate of LIBOR plus bank margin that were fully paid during 2019.

11.3 The loan facilities (revolving & non-revolving) available from commercial banks amounted to SR 635 million (December 31,2018: SR 1,253 million) of which SR 114 million (December 31,2018: SR 263 million) were utilised.

11.4 The schedule for movement of bank borrowings was as follows:

(All amounts are in Saudi Riyals unless stated otherwise)

	Borrowings	Special commission	Total
Payable as at January 1, 2019	**263,000,000**	**779,719**	**263,779,719**
Proceeds / charge during the year	**201,250,000**	**3,805,222**	**205,055,222**
Payments during the year	**(350,137,302)**	**(4,471,218)**	**(354,608,520)**
Payable as at December 31, 2019,	**114,112,698**	**113,723**	**114,226,421**

	Borrowings	Special commission	Total
Payable as at January 1, 2018	391,095,143	1,231,545	392,326,688
Proceeds / charge during the year	50,000,000	7,835,854	57,835,854
Payments during the year	(178,095,143)	(8,287,680)	(186,382,823)
Payable as at December 31, 2018	263,000,000	779,719	263,779,719

12 ZAKAT AND INCOME TAX

a) Maturity of the zakat and income tax payable are as follows:

	Note	Zakat	Income tax	Total
Non-current		**7,898,526**	**-**	**7,898,526**
Current		**10,101,046**	**4,231,042**	**14,332,088**
	12b & 12c	**17,999,572**	**4,231,042**	**22,230,614**

b) Zakat

Movement in provision:	2019	2018
Balance as at January 1	**2,621,193**	1,629,692
Provided during the year	**7,468,203**	991,501
Zakat settlement for prior periods	**36,818,943**	-
Payment during the year	**(28,908,767)**	-
Balance as at December 31	**17,999,572**	2,621,193

Charge for the year

Zakat is payable by the Saudi Shareholders. On March 14, 2019 (7/7/1440H), General Authority of Zakat and Tax (GAZT) published new zakat regulations under Ministerial Resolution (MR) No. 2216 and separate rules were introduced to calculate zakat for financing activities under MR No. 2215. MR No. 2215 rules are applicable for entities conducting financing activities licensed under Saudi Arabian Monetary Authority (SAMA). The rules are applicable to fiscal years commencing on or after January 1, 2019. The rules under MR No. 2215 provides for minimum and maximum cap for zakat base if the zakat payer has either reported net profit or gross profit.

The rules (MR No. 2215) provide for computation of zakat base as the ratio of zakatable assets from total assets multiplied by the sources of the zakat payer's zakatable funds. During 2018, zakat was calculated based on the higher of zakat base (calculated as per old zakat regulations) or the adjusted income for year.

Zakat charge for the year is SR 7,468,203 and has been calculated as eight times the income before zakat and income tax (maximum cap for zakat base).

c) Income tax

Movement in provision:	2019	2018
Balance as at January 1	**1,578,611**	1,231,277
Provided during the year	**1,815,625**	3,917,108
Tax refund adjustment for prior period	**836,806**	-
Payment during the year	**-**	(3,569,774)
Balance as at December 31	**4,231,04٢**	1,578,611

Charge for the year

(All amounts are in Saudi Riyals unless stated otherwise)

Non-Saudi shareholders are subject to income tax at 20% on the adjusted net income. Income tax liability for the years 2019 and 2018 has been calculated based on adjusted income for tax purpose.

12.1 Status of assessments

(a) During the year, the Company received and signed off a settlement agreement with GAZT for the financials years ended December 31, 2014 through 2018. As per the agreement, the Company is required to pay Zakat of SR 16,455,263 payable in instalments over a period of five years for the years 2014 to 2017 and for the financial year 2018 an amount of SR 3,844,872 as per the Ministerial Resolution No. 1260. The Saudi shareholders have confirmed to pay the amount to the Company. Payment of SR 5,923,895 representing 36% of the settlement value for the years 2014-2017 and full settlement for 2018 has been made during the year 2019, while the balance amount of 2014 to 2017 is payable annually in four equal instalments. Further an amount of SR 1,629,691 was recovered from the shareholders through dividend payment pertaining to the years 2004 and 2017 and was unadjusted owing to assessments. As the assessments for prior years have been finalised SR 1,629,691 was offset against the receivable from shareholders for prior period zakat settlement.

(b) During the year, the Company also received a settlement agreement from GAZT for the financial years ended December 31, 2003 through 2013. Accordingly, the Company settled the amount of SR 19,140,000 during August 2019.

12.2 Change in accounting treatment relating to Zakat and Income Tax

The change in the accounting treatment for zakat and income tax (as explained in note 3.1(ii)) has the following impact on the line items of the statements of income, statement of financial position and statement of changes in equity:

As at and for the year ended December 31, 2018:

Financial statement impacted	Account	Before the restatement for the year ended December 31, 2018:	Effect of Restatement	As restated as at and for the year ended December 31, 2018:
Statement of changes in Equity	Zakat and income tax expenses (retained earnings)	4,908,609	(4,908,609)	-
Statement of income	Zakat and income tax expenses	-	(4,908,609)	(4,908,609)
Statement of income	Earnings per share	1.04	(0.08)	0.96

Based on the assessment performed by the management, impact of deferred taxation was not material.

(All amounts are in Saudi Riyals unless stated otherwise)

13 EMPLOYEES' END OF SERVICE BENEFITS

	2019	2018
Balance as at January 1	**16,415,563**	15,948,213
Provided during the year - service cost	**2,094,071**	1,453,317
Provided during the year - interest cost	**656,623**	558,187
Paid during the year	**(1,329,432)**	(1,204,699)
Actuarial gains through OCI	**(407,940)**	(339,455)
Balance as at December 31	**17,428,885**	16,415,563

13.1 Principal actuarial assumptions at the reporting date are as follows:

	2019	2018
Discount rate	**4.0%**	3.5%
Salary increment	**2.5%**	2.5%
Retirement age	**60**	60

13.2 Sensitivity of the actuarial assumptions

A change of 1% in discount rate and salary increment would have increased or decreased the employees' end of service benefits by SR 0.64 million and 0.77 million respectively (2018: SR 0.59 million & SR 0.70 million respectively).

14 DERIVATIVE FINANCIAL INSTRUMENTS

	2019	2018
Interest rate swaps- cash flow hedge	-	1,657,447

The Company enters into Interest Rate Swaps ("IRS") agreements in order to reduce its exposure to interest rate risks against long-term loans subject to variable interest rate. As at December 31, 2019, there were no IRS held by the Company as no variable interest rate loans were held (2018: SR 213 million).

15 ACCOUNTS PAYABLE

These represent non-interest-bearing payables against purchase of assets leased by the Company and against murabaha finance. Generally, the average credit period on purchases of assets from suppliers is one month.

16 ACCRUED EXPENSES AND OTHER LIABILITIES

	Note	2019	2018
Proposed lease related payables	16.1	**12,732,365**	16,915,792
Employee related payables		**6,338,114**	7,793,786
Leased assets insurance claims to be settled		**3,639,677**	4,155,841
Leased assets insurance premium payable		**2,663,760**	886,840
Legal and professional charges		**457,920**	603,488
Other	16.2	**7,165,458**	6,232,334
		32,997,294	36,588,081

16.1 These include advance down payments and front-end fees of proposed lease contracts unexecuted as at statement of financial position date and other lease contract services related payables of executed and unexecuted contracts.

16.2 This include charity payable of SR 3.2 million (2018: SR 2.8 million).

(All amounts are in Saudi Riyals unless stated otherwise)

17 REVENUE

	Note	2019	2018
Finance lease	17.1	**92,530,326**	104,844,390
Murabaha finance	17.1	**9,878,545**	200,372
Other income	17.2	**5,745,747**	6,285,806
		108,154,618	111,330,568

17.1 Finance lease and murabaha finance income are stated net of insurance costs.

17.2 Other income mainly includes front-end fees and income earned on short-term time deposits.

18 SPECIAL COMMISSION EXPENSE

	2019	2018
Special commission expense on:		
Long-term loans	**2,928,799**	7,835,854
Short-term loan	**876,423**	-
	3,805,222	7,835,854
Bank overdraft commission	**300,955**	55,365
Interest expense on right-of-use asset	**82,044**	-
	4,188,221	7,891,219
Amortisation of transaction costs and bank charges	**441,472**	1,417,690
	4,629,693	9,308,909

19 GENERAL AND ADMINISTRATIVE EXPENSES

	2019	2018
License, legal and professional charges	**4,345,052**	1,991,118
Communication expenses	**989,775**	990,756
Insurance of owned assets	**278,073**	343,119
Office repair and maintenance cost	**661,961**	501,543
Travelling and transportation	**335,689**	392,741
Printing and stationery	**210,720**	226,915
Other	**92,061**	1,844,540
	6,913,331	6,290,732

20 BASIC AND DILUTED EARNINGS PER SHARE

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

21 COMMITMENTS

	2019	2018
Finance lease and murabaha contracts not yet executed	**10,890,276**	30,701,975
Lease commitments for office premises - 2 years	**3,700,000**	3,700,000
Bank guarantees issued on behalf of the Company	**2,000,000**	5,000,000

22 SEGMENT REPORTING

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

The Company essentially monitors its business as a single business segment and accordingly it is Management's opinion that segment reporting would not be relevant. The Company only operates in the Kingdom of Saudi Arabia.

23 FINANCIAL RISK MANAGEMENT

Risk is inherent in the Company's activities and is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing profitability. The Company's activities are exposed to a variety of financial risks which mainly include market risk, credit risk and liquidity risk.

23.1 Risk management structure

Board of Directors
The Board of Directors is responsible for establishing the Company's policies, including risk management framework, and to review the performance of the Company to ensure compliance with these policies.

Credit and risk management committee
The credit and risk management committee are appointed by the Board of Directors. The credit and risk management committee assist the Board in reviewing overall risks which the Company might face, evaluate and review operational and non-operational risks and decide on mitigating factors related therewith.

Audit Committee
The Audit Committee is appointed by the Board of Directors. The Audit Committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting, the audit thereof and the reliability of the internal controls of the Company.

Internal audit
All key operational, financial and risk management processes are audited by the Internal Audit. Internal audit examines the adequacy of the relevant policies and procedures, the Company's compliance with the internal policies and regulatory guidelines. Internal audit discusses the results of all assessments with management and reports its findings and recommendations to the Audit Committee.
The risks faced by the Company and the way these risks are mitigated by management are summarized below.

23.2 Market risk

Market risk is the risk that the fair value or the future cash flows of a financial instrument may fluctuate as a result of changes in market profit rates or the market prices of securities due to change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market.

Market risk comprises of three types of risk: currency risk, special commission rate risk and other price risk.

23.2.1 Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's principal transactions are carried in Saudi Riyal. The Company incurs currency risk on borrowing in foreign currency that is entered in a currency other than Saudi Riyal. Management believes that there is minimal risk of significant losses due to exchange rate fluctuations as the majority of the monetary assets and liabilities are in Saudi Riyals or currencies which are pegged to the Saudi Riyal and consequently the Company does not hedge its foreign currency exposure. The Company's exposure to foreign currency transactions are as follows:

	2019	2018
Foreign currency loan (borrowed in USD)	-	213,000,000

Sensitivity analysis

The Company has no foreign currency loan at reporting date, and hence there is no currency risk related to loans at reporting date. If the Saudi Riyal had strengthened/ weakened by 1% against the US Dollar with all other variables held constant, income for the year would have been higher/ lower by the amount of SR Nil (2018: SR 2.13 million) mainly as a result of net foreign exchange gain/ loss on translation of foreign currency loan.

23.2.2 Special commission rate risk

Special commission rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market special commission rates. The Company's exposure to the risk of changes in market special commission rates relates primarily to the Company's long-term debt obligations with floating special commission rates.

(All amounts are in Saudi Riyals unless stated otherwise)

There were no financial liabilities subject to special commission rate risk as at December 31, 2019 which were not hedged.

Sensitivity analysis for variable rate financial instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through statement of income. But the Company does designate derivatives (special commission rate swap) as a hedging instrument. The Company does not have any variable rate financial assets. Therefore, a change in special commission rate of fixed rate financial assets at the reporting date would not affect income for the year.

Had there been no hedge arrangements, a change of 100 basis points in special commission rate of variable rate financial liabilities would have increased or decreased income by SR 0.7 million (2018: SR 3.4 million).

The sensitivity analysis prepared is not necessarily indicative of the effects on statement of income for the year and financial assets/ liabilities of the Company.

23.2.3 Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from special commission rate risk or currency risk) whether those changes are caused by factors specific to the individual financial instruments or it's issuer, or factors affecting all similar financial instruments traded in the market. The Company does not have any financial instruments which are subject to other price risk.

23.3 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Out of the total assets of SR 1,141 million (2018: SR 1,210 million), the assets which were subject to credit risk of financial assets amounted to SR 1,083 million (2018: SR 1,189 million). The management analyze the credit risk in the following categories:

	2019	**2018**
Net investment in finance leases	**904,292,844**	1,035,191,939
Net investment in murabaha finance	**139,177,309**	16,164,785
Advances, prepayments and other receivables	**746,788**	558,594
Bank balances	**38,904,186**	136,833,497
	1,083,121,127	1,188,748,815

23.3.1 Net investment in finance leases & murabaha finance

The investment in finance leases & murabaha finance generally expose to significant credit risk. Therefore, the Company has established a number of procedures to manage credit exposure including evaluation of lessees' credit worthiness, formal credit approvals, assigning credit limits, obtaining collateral and personal guarantees.

The Company also follows a credit classification mechanism, primarily driven by days-delinquency as a tool to manage the quality of credit risk of the lease portfolio. Lease receivables which are overdue for more than 6 months and where future cash flows are estimated to differ, are graded into four sub-categories according to Company's internal rating system i.e. Overdue/Watch, Substandard, Doubtful and Loss.

The portfolio that is neither past due nor impaired has satisfactory history of repayment, where applicable. As at statement of financial position date, the Company has adequate collaterals to cover the overall credit risk exposure after making an impairment provision.

The assessment of credit risk of finance lease and murabaha finance also requires further estimations of credit risk using Expected Credit Loss (ECL) which is derived by Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). Based on instalment collection history, the management believes that the significant increase in credit risk arise only when the instalment is past due for more than 60 days. However, the main consideration for the impairment assessment includes whether any monthly contractual payments are overdue by more than 90 days or there are any known difficulties in the cash flows of the counterparties, credit rating downgrades, or infringement of the original terms of the contract. Loss rates are calculated using a 'flow rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off. The Company's provision methodology is based on the default probability calculated on forward flow rates of past twenty-four months and adjusted by the outlook of the economy. The change in macro-economic factor will not result in significant change in impairment as of Dec 31, 2019. The Company has considered average credit losses of finance lease and murabaha finance with shared risk characteristics as a reasonable estimate of the probability weighted amount. LGD is computed considering the collection history of defaulted balance in different leased asset categories such as vehicles, real estate, plant and machinery etc. The Company's management believes that adequate provision has been made, where required to address the credit risk. Moreover, the Company in the ordinary course of providing finance receivables are subject to additional personal guarantees for security to mitigate credit risk associated with finance lease and murabaha finance. For additional details, relating to finance lease and murabaha finance and related risk refer note 3.10, note 6 and note 7 to these financial statements.

(All amounts are in Saudi Riyals unless stated otherwise)

Concentration risk

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

The Company manages its credit risk exposure through diversification of leasing activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or businesses. An analysis by class of business of the Company's net investment in finance leases and murabaha finance is given below:

	2019		2018	
	SR	%	SR	%
Manufacturing	**431,194,083**	**34.79**	413,713,286	32.51
Services - construction & contracting	**132,602,631**	**10.70**	150,916,488	11.86
Services - miscellaneous	**459,417,037**	**37.07**	431,994,887	33.95
Trading	**213,879,738**	**17.26**	270,931,392	21.29
Other	**2,316,391**	**0.18**	4,948,893	0.39
	1,239,409,880	**100**	1,272,504,946	100

Collateral held as security and other credit enhancements

The credit risks on gross amounts due in relation to the investment in finance leases & murabaha financing is mitigated by the retention of title on leased assets. Further, the Company has obtained bank guarantee from some of its customers amounting to SR 84.9 million as at December 31, 2019 (December 31, 2018: SR 75.9 million).

23.3.2 Bank balances and other receivables

The Company believes that it has a low credit risk on these financial assets and the loss allowance would not be material for the Company. The Bank balances are held with a bank having good credit ratings. Hence, currently the Company is not exposed to any significant credit risk. Other receivables are not significant and not exposed to significant credit risk.

(All amounts are in Saudi Riyals unless stated otherwise)

23.4 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due. Liquidity risk arises because of the possibility that the Company will be required to pay its liabilities earlier than expected or will face difficulty in raising funds to meet commitments associated with financial liabilities as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stress conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The contractual maturities of liabilities have been determined on the basis of the remaining period at the statement of financial position date to the contractual maturity date and do not take account of the effective maturities as indicated by the Company's availability of liquid funds. Management monitors the maturity profile to ensure that adequate liquidity is maintained. The table below summarizes the maturity profile of the Company's liabilities based on contractual undiscounted cash flows:

December 31, 2019	Within 3 months	4 to 12 months	2 to 5 years	No fixed maturity	Total
Accounts payable	49,153,206	-	-	-	49,153,206
Accrued expenses and other liabilities	32,997,294	-	-	-	32,997,294
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' end of service benefits	-	-	-	17,428,885	17,428,885
	118,910,233	48,868,247	81,945,177	17,428,885	267,152,542
December 31, 2018					
Accounts payable	34,290,169	-	-	-	34,290,169
Accrued expenses and other liabilities	36,588,081	-	-	-	36,588,081
Zakat and income tax	-	4,199,804	-	-	4,199,804
Long-term loans	2,264,638	226,395,103	38,330,464	-	266,990,205
Employees' end of service benefits	-	-	-	16,415,563	16,415,563
	73,142,888	230,594,907	38,330,464	16,415,563	358,483,822

24 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

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

The principal or the most advantageous market must be accessible to by the Company. The fair value of an asset or a liability is measured using assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. The fair value of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Company determines fair values using other valuation techniques.

Valuation techniques

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All financial assets and financial liabilities are measured at amortized cost except derivative financial instruments. The carrying amounts of all financial assets and financial liabilities measured at amortized cost approximate their fair values. The Company did not have any derivative financial instruments which falls under level 2 in the fair value hierarchy as at December 31, 2019 (2018: SR 1,657,447).

(All amounts are in Saudi Riyals unless stated otherwise)

25 FINANCIAL INSTRUMENTS

In accordance with the requirement of IFRS 9, all financial assets and liabilities of the Company are classified and measured at amortised cost, except for derivative financial instrument which are measured at fair value, the breakdown of those were as follows:

	2019	2018
Financial assets – at amortized cost		
Net investment in finance leases	**1,100,171,157**	1,256,310,050
Net investment in murabaha finance	**139,238,723**	16,194,896
Financial assets – at fair value		
Derivative financial instrument	-	1,657,447
Financial liabilities – at amortized cost		
Long term loans and lease liabilities	**115,290,884**	263,609,444
Accounts payable	**49,153,206**	34,290,169
Accrued expenses and other liabilities	**32,997,294**	36,588,081

26 CAPITAL RISK MANAGEMENT

The objective of the Company when managing capital is to safeguard its ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to maintain optimal capital structure to reduce the cost of capital. The Company manages its capital structure by monitoring return on net assets and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend paid to its shareholders or issue new shares.

No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2019, and 2018. At statement of financial position date, gearing ratio analysis was as follows:

	2019	2018
Equity	**874,537,439**	854,981,541
Liabilities	**266,185,914**	355,103,061
Total capital structure	**1,140,723,353**	1,210,084,602
Gearing ratio	**23.33%**	29.35%

(All amounts are in Saudi Riyals unless stated otherwise)

27 RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Company transacts business with related parties, which are related to its shareholders. The Company is provided 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:	2019	2018
The Saudi Investment Bank - *shareholder*		
Dividend paid – net	**6,284,578**	8,560,050
Special commission and other bank charges paid	**156,930**	129,284
Rent and premises related payment	**2,350,000**	2,350,000
Lease participation – payments*	**44,959,973**	32,267,346
Lease participation – management fee and others *	**541,234**	767,656
Trade Development & Investment Group, KSA - *shareholder*		
Dividend paid – net	**5,281,455**	7,280,744
ORIX Corporation, Japan – *shareholder*		
Dividend paid – net	**4,303,992**	3,689,963
ORIX Leasing Pakistan Limited - *shareholder*		
Dividend paid - net	**391,272**	335,451
The Mediterranean and Gulf Cooperative Insurance & Reinsurance Company, KSA- *affiliate*		
Premium for insurance and other related payments-net	**5,019,878**	10,340,927
Amlak International for Real Estate Development and Finance Company, KSA – *affiliate*		
Rent and premises related income on subletting to an affiliate	**1,591,837**	1,591,837
Key Management Personnel		
Salaries and other short-term employee benefits	**8,300,196**	8,366,401
End of service benefits	**766,763**	449,314
Directors' meeting attendance fee	**900,000**	900,000
Balances:		
The Saudi Investment Bank- *shareholder*		
Current accounts	**11,411,435**	72,136,880
Bank overdraft	**29,085,031**	-
Lease participation payable	**-**	429
Lease participation receivable	**37,328**	-
The Mediterranean and Gulf Cooperative Insurance & Reinsurance Company, KSA- *affiliate*		
Advance against insurance premium, net	**2,870,629**	5,906,182
Amlak International for Real Estate Development and Finance Company, KSA- *affiliate*		
Rent and premise related advance on subletting	**-**	397,959
Rent and premise related receivable on subletting	**132,653**	-
Key Management Personnel		
Employees' end of service benefits	**3,342,838**	2,686,152
Loans to key management of the Company	**252,086**	489,118
Directors' meeting attendance fee payable	**900,000**	900,000

* 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 5.1 million as at December 31, 2019 (2018: SR 48 million).

28 DIVIDENDS

On March 20, 2019, the Board of Directors proposed an annual dividend of SR 0.5 per share (2017: SR 0.5 per share) for the year ended December 31, 2018, amounting to SR 27.5 million (2017: SR 27.5 million). Shareholders approved the distribution at the General Assembly Meeting, held on May 07, 2019.

29 SUBSEQUENT EVENT AND BOARD OF DIRECTORS' APPROVAL

29.1 There was no significant subsequent event which require disclosure in these financial statements.

29.2 These financial statements were approved and authorised for issue by the Board of Directors on February 26, 2020 (corresponding to Rajab 2, 1441H).