

**AL TAYSEER ARABIAN COMPANY**  
**(A Saudi Closed Joint Stock Company)**

**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**  
**AND INDEPENDENT AUDITOR'S REPORT**

**AL TAYSEER ARABIAN COMPANY**  
**(A Saudi Closed Joint Stock Company)**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

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## *Independent auditor's report to the shareholders of Al Tayseer Arabian Company*

### *Report on the audit of the financial statements*

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#### *Our opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Al Tayseer Arabian Company (the "Company") as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax.

#### **What we have audited**

The Company's financial statements comprise:

- the statement of profit or loss and other comprehensive income for the year ended December 31, 2018;
- the statement of financial position as at December 31, 2018;
- the statement of changes in shareholders' 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, that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We 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 International Financial Reporting Standards as modified by SAMA for the accounting of zakat and income tax and the applicable requirements of the Regulations for Companies and the Company's By-laws, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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



## *Independent auditor's report to the shareholders of Al Tayseer Arabian Company (continued)*

### *Auditor's responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

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



*Independent auditor's report to the shareholders of Al Tayseer  
Arabian Company (continued)*

*Report on other legal and regulatory requirements*

Based on the information that has been made available to us, nothing has come to our attention that causes us to believe that the Company is not in compliance, in all material respects, with the applicable requirements of the Regulations for Companies and the Company's By-laws in so far as they affect the preparation and presentation of the financial statements.

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**PricewaterhouseCoopers**

A handwritten signature in blue ink, appearing to read "Khalid A. Mahdhar", written over a horizontal line.

Khalid A. Mahdhar  
License Number 368

March 4, 2019

**AL TAYSEER ARABIAN COMPANY**  
**(A Saudi Closed Joint Stock Company)**  
**Statement of profit or loss and other comprehensive income**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

	<b>Note</b>	<b>Year ended December 31,</b>	
		<b>2018</b>	<b>2017</b>
Income from finance leases		<b>72,407</b>	87,752
<b>Expenses</b>			
Provision for impairment	9, 10	<b>(2,629)</b>	(48,679)
Insurance and other cost of financed vehicles		<b>(31,598)</b>	(38,667)
Selling and marketing	5	<b>(22,958)</b>	(29,634)
General and administrative	6	<b>(18,897)</b>	(27,667)
Other operating income - net		<b>3,779</b>	5,289
Net operating income (loss)		<b>104</b>	(51,606)
<b>Other expenses</b>			
Finance costs	12, 18	<b>(12,785)</b>	(14,670)
<b>Net loss for the year</b>		<b>(12,681)</b>	(66,276)
<b>Other comprehensive income</b>			
<i>Items that will not be reclassified to profit or loss</i>			
Remeasurements of employee benefit obligations		<b>2,259</b>	(1,325)
<b>Other comprehensive income (loss) for the year</b>		<b>2,259</b>	(1,325)
<b>Total comprehensive loss for the year</b>		<b>(10,422)</b>	(67,601)

The accompanying notes are an integral part of these financial statements.

**AL TAYSEER ARABIAN COMPANY**  
**(A Saudi Closed Joint Stock Company)**  
**Statement of financial position**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

		<b>As at December 31,</b>	
	<b>Note</b>	<b>2018</b>	<b>2017</b>
<b>Assets</b>			
<b>Non-current assets</b>			
Property and equipment	7	6,678	5,799
Intangible assets	8	5,724	6,093
Long term deposit	12	18,750	18,750
Net investment in finance leases - non-current portion	9	271,363	372,561
		<u>302,515</u>	<u>403,203</u>
<b>Current assets</b>			
Prepayments and other receivables	10	31,243	42,995
Net investment in finance leases - current portion	9	302,200	338,899
Cash and cash equivalents	11	7,002	6,399
		<u>340,445</u>	<u>388,293</u>
<b>Total assets</b>		<u>642,960</u>	<u>791,496</u>
<b>Liabilities and shareholders' equity</b>			
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Long term borrowings	12	56,506	103,381
Employee termination benefits	13	6,537	9,911
Due to related parties - non-current portion	18	30,000	70,000
		<u>93,043</u>	<u>183,292</u>
<b>Current liabilities</b>			
Current maturity of long term borrowings	12	46,875	46,875
Due to related parties - current portion	18	135,241	157,033
Accounts payable		23,248	13,494
Accrued and other liabilities	14	13,617	11,775
Zakat payable	15	51,161	37,278
		<u>270,142</u>	<u>266,455</u>
<b>Total liabilities</b>		<u>363,185</u>	<u>449,747</u>
<b>Shareholders' equity</b>			
Share capital	16	400,000	400,000
Statutory reserve	17	6,294	6,294
Accumulated losses		(126,519)	(64,545)
<b>Total shareholders' equity</b>		<u>279,775</u>	<u>341,749</u>
<b>Total liabilities and shareholders' equity</b>		<u>642,960</u>	<u>791,496</u>

The accompanying notes are an integral part of these financial statements.

**AL TAYSEER ARABIAN COMPANY**  
**(A Saudi Closed Joint Stock Company)**  
**Statement of changes in shareholders' equity**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	Share capital	Statutory reserve	Accumulated losses	Total
<b>Balance at December 31, 2017</b>		400,000	6,294	(64,545)	<b>341,749</b>
Adjustment on adoption of IFRS 9	9	-	-	(37,669)	<b>(37,669)</b>
<b>Balance at January 1, 2018</b>		400,000	6,294	(102,214)	<b>304,080</b>
Loss for the year		-	-	(12,681)	<b>(12,681)</b>
Other comprehensive income for the year		-	-	2,259	<b>2,259</b>
Total comprehensive loss for the year		-	-	(10,422)	<b>(10,422)</b>
Provision for zakat - current year		-	-	(13,883)	<b>(13,883)</b>
<b>December 31, 2018</b>		<b>400,000</b>	<b>6,294</b>	<b>(126,519)</b>	<b>279,775</b>
<b>Balance at January 1, 2017</b>		400,000	6,294	50,385	456,679
Loss for the year		-	-	(66,276)	(66,276)
Other comprehensive loss for the year		-	-	(1,325)	(1,325)
Total comprehensive loss for the year		-	-	(67,601)	(67,601)
Provision for zakat - current year		-	-	(14,775)	(14,775)
Provision for zakat - prior years		-	-	(32,554)	(32,554)
<b>Balance at December 31, 2017</b>		<b>400,000</b>	<b>6,294</b>	<b>(64,545)</b>	<b>341,749</b>

The accompanying notes are an integral part of these financial statements.



**AL TAYSEER ARABIAN COMPANY**  
**(A Saudi Closed Joint Stock Company)**  
**Statement of cash flows**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

		<b>Year ended December 31,</b>	
	<b>Note</b>	<b>2018</b>	<b>2017</b>
<b>Cash flows from operating activities</b>			
Loss before zakat		(12,681)	(66,276)
<u>Adjustments for:</u>			
Allowance for expected credit losses			
on lease and other receivables	9, 10	2,629	48,679
Depreciation and amortization	7, 8	1,877	1,068
Finance costs		12,785	14,670
Provision for employee termination benefits		1,802	2,122
<u>Changes in working capital:</u>			
Decrease in net investment in finance leases		97,599	76,715
Decrease in prepayments and other receivables		11,752	12,656
Increase in accounts payable		9,754	3,407
Increase (decrease) in accrued and other liabilities		1,842	(1,212)
Cash generated from operations		127,359	91,829
Finance costs paid on borrowings		(12,785)	(14,670)
Zakat paid	15	-	(17,015)
Employee termination benefits paid		(2,917)	(2,814)
<b>Net cash inflow from operating activities</b>		<b>111,657</b>	<b>57,330</b>
<b>Cash flows from investing activities</b>			
Payments for purchases of property and equipment	7	(2,097)	(2,640)
Payments for purchases of intangible assets	8	(290)	-
Long term deposit		-	(15,409)
<b>Net cash outflow from investing activities</b>		<b>(2,387)</b>	<b>(18,049)</b>
<b>Cash flows from financing activities</b>			
Due to related parties		(61,792)	(151,694)
Long term borrowings obtained		-	154,095
Long term borrowings repaid	12	(46,875)	(37,244)
<b>Net cash outflow from financing activities</b>		<b>(108,667)</b>	<b>(34,843)</b>
<b>Net increase in cash and cash equivalents</b>		<b>603</b>	<b>4,438</b>
Cash and cash equivalents at beginning of year		6,399	1,961
<b>Cash and cash equivalents at end of year</b>	11	<b>7,002</b>	<b>6,399</b>

The accompanying notes are an integral part of these financial statements.

**AL TAYSEER ARABIAN COMPANY**  
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**Notes to the financial statements for the year ended December 31, 2018**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

**1 General information**

Al Tayseer Arabian Company (the "Company") is principally engaged in providing various types of automotive finance services to the retail and corporate sector in Saudi Arabia. The Company is part of Al Jomaih Group (the "Group") and effectively 100% owned by Al Jomaih Automotive Company ("AAC") which is ultimately owned by Al Jomaih Holding Company ("AJHC", the "Holding Company" or the "Group").

The Company is a closed joint stock company operating under Commercial Registration ("CR") number 2051060381 issued in Riyadh on Jumad ul Akhira 11, 1436 H (March 31, 2015). The registered address of the Company is P.O. Box 224, King Abdullah Street, Khobar 31411, Kingdom of Saudi Arabia ("KSA").

**2 Basis of preparation**

**2.1 Compliance with IFRS**

The financial statements of the Company for the year ended December 31, 2018 have been prepared by the management in accordance with International Financial Reporting Standards ("IFRS") as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax, which requires, adoption of all International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB") except for the application of International Accounting Standard (IAS) 12 - "Income Taxes" and IFRIC 21 - "Levies" so far as these relate to zakat and income tax. As per the SAMA circular number 381000074519 dated April 11, 2017 and subsequent amendments through certain clarifications relating to the accounting for zakat and income tax ("SAMA Circular"), the zakat and income tax are to be accrued through shareholders' equity under retained earnings.

**2.2 Historical cost convention**

These financial statements are prepared under the historical cost convention.

**2.3 New IFRS, Interpretations issued by the IFRS Interpretations Committee of the IASB (IFRIC) and amendments thereof, adopted by the Company**

The Company has adopted amendments and revisions to existing standards, if any, which were issued by the International Accounting Standards Board (IASB) effective for the financial reporting period commencing on or after January 1, 2018:

***IFRS 9 'Financial instruments'***

The Company has adopted IFRS 9 'Financial Instruments' (IFRS 9) issued in July 2014 with a date of initial application of January 1, 2018. The requirements of IFRS 9 represents a significant change from IAS 39 'Financial Instruments: Recognition and Measurement' (IAS 39). The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As per transition provisions of IFRS 9, comparative periods have not been restated. A difference in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings as at January 1, 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

The other standards did not have any impact on the Company's accounting policies and did not require retrospective adjustments.

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**2.4 Standards, interpretations and amendments to published standards that will be effective for the periods commencing on or after January 1, 2019 and have not been early adopted by the Company**

Certain new standards and amendments to existing standards have been published and are mandatory for the Company's accounting periods beginning January 1, 2019 or later periods, but have not been early adopted by the Company. The Company's assessment of the impact of these new standards and interpretations is set out below:

Title of standard	IFRS 16 Leases ("IFRS 16")
Nature of change	<p>IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.</p> <p>The accounting for lessors will not significantly change.</p>
Impact	<p>The standard will affect primarily the accounting for the Company's operating leases. As at the reporting date, the Company has no material operating lease commitments. See Note 19. Based on management's initial assessment, the standard has no material impact on the financial statements of the Company as at the reporting date.</p>
Date of adoption by Company	<p>The Company will apply the standard from its mandatory adoption date of January 1, 2019. The Company intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).</p>

There are no other relevant IFRS or IFRS Interpretations Committee interpretations that are not yet effective that would be expected to have a material impact on the Company's financial statements.

**3 Summary of significant accounting policies**

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

**3.1 Foreign currency translations**

**(a) Functional and presentation currency**

These financial statements are presented in Saudi Riyals which is the Company's functional and presentation currency.

**(b) Transactions and balances**

Foreign currency transactions are translated into Saudi Riyals using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

**3.2 Cash and cash equivalents**

Cash and cash equivalents include cash in hand, demand deposits and short-term highly liquid investments, with original maturities up to three months, that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

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**3.3 Net investment in finance leases**

Leases in which the Company transfers substantially all the risk and rewards incidental to the ownership of an asset to the lessees are classified as finance lease. 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 ("PVMLP") and subsequently measured at amortized cost using effective commission rate.

Gross investment in finance leases include the total of future lease payments on finance leases including residual amount receivable ("Lease rentals"). Security deposits with right to offset against lease rentals are deducted from gross investments in finance lease. The difference between lease rentals and the cost of the leased asset including transaction costs is recorded as unearned finance income.

For presentation purposes, the unearned finance income and impairment provision for lease losses is deducted from the gross investment in finance leases.

**3.4 Repossessed assets held for sale**

The Company, in the ordinary course of its business, acquires certain vehicles against settlement of related net investment in finance leases. Such assets are considered as assets held for sale and are initially recorded at the net realizable value of repossessed assets.

Subsequent to the initial recognition, these assets are carried at lower of their carrying values or the related net realizable value. Changes in net realizable value and gains or losses on disposal are charged or credited to profit or loss.

**3.5 Property and equipment**

Property and equipment are carried at cost less accumulated depreciation and accumulated impairment, if any, except capital work-in-progress which is carried at cost, less accumulated impairment, if any. Depreciation is charged to profit or loss, using the straight-line method, to allocate the carrying value over the estimated useful lives, as follows:

	<b>Number of years</b>
• Buildings and leasehold improvements	10 - 33
• Furniture, fixtures and office equipment	4 - 5
• Motor vehicles	4

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in profit or loss.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized.

All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

**3.6 Intangible assets**

Intangible assets having definite lives are stated at cost less accumulated amortization and accumulated impairment, if any except for intangible assets under development which are carried at cost. Amortization is charged to profit or loss, using the straight-line method, to allocate the cost over the estimated useful lives not exceeding seven years. The useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

Subsequent costs are included in the asset's carrying amounts or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Gains and losses on disposals, if any, are taken to profit or loss in the period in which they arise.

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**3.7 Financial instruments**

**3.7.1 Financial assets**

**(i) Classification**

From January 1, 2018, the Company's financial assets are classified and measured at amortised cost as such assets are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest.

**(ii) Recognition and derecognition**

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

**(iii) Measurement**

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

Subsequent measurement of Company's financial assets are at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss. Impairment losses are presented as separate line item in profit or loss.

**(iv) Impairment**

From January 1, 2018, the Company assesses on a forward looking basis the expected credit losses associated with its financial assets. Previously, the Company was using incurred loss model.

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

The Company uses a provision matrix in the calculation of the expected credit losses on lease receivables to estimate the lifetime expected credit losses, applying certain provision rates to respective contractual past due aging buckets. The provision matrix 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 macro-economic factors such as inflation and gross domestic product growth rate.

Lease receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Company, and a failure to make contractual payments for a period of greater than 365 days past due.

Where financial assets are written off, the Company continues to engage enforcement activities to attempt to recover the amount due. Where recoveries are made, after write-off, are recognized as other income in profit or loss.

While cash and cash equivalents, long-term deposit, insurance claims and other receivables are also subject to impairment requirements of IFRS 9, the identified impairment loss was immaterial.

**3.7.2 Financial liabilities**

All financial liabilities are recognised at the time when the Company becomes a party to the contractual provisions of the instrument. Financial liabilities are recognized initially at fair value less any directly attributable transaction cost. Subsequent to initial recognition, these are measured at amortized cost using the effective interest rate method.

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A financial liability is derecognised when the obligation is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in respective carrying amounts is recognised in profit or loss.

Impact on the amounts recognised and the classification of financial assets and liabilities from the adoption of IFRS 9 is as follows:

	<b>Original classification under IAS 39</b>	<b>New classification under IFRS 9</b>	<b>Original carrying value under IAS 39 As at January 1, 2018</b>	<b>New carrying value under IFRS 9</b>
<b>Financial assets</b>				
Cash and cash equivalents	Loans and receivables	Amortised cost	6,399	6,399
Investment in finance lease	Amortised cost	Amortised cost	711,460	673,791
Long-term deposit	Amortised cost	Amortised cost	18,750	18,750
Insurance claims and other receivables (Included within prepayments and other receivables)	Loans and receivables	Amortised cost	36,541	36,541
<b>Financial liabilities</b>				
Long-term borrowings	Other financial liabilities at amortised cost	Amortised cost	150,256	150,256
Accounts payable and due to related parties	Other financial liabilities at amortised cost	Amortised cost	240,527	240,527
Accrued and other liabilities	Other financial liabilities at amortised cost	Amortised cost	11,775	11,775

### **3.7.3 Offsetting**

Financial assets and liabilities are offset and net amounts are reported in the financial statements, when the Company has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the assets and liabilities simultaneously.

### **3.7.4 Accounting policies applied until December 31, 2017**

The Company has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Company's previous accounting policy.

#### **Classification**

Until December 31, 2017, the Company classified its financial assets as loans and receivables.

#### **Subsequent measurement**

The measurement at initial recognition did not change on adoption of IFRS 9, see description above.

Subsequent to the initial recognition, loans and receivables were carried at amortised cost using the effective interest method.

#### **Impairment of financial assets**

The Company assessed at the end of each reporting period whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated.



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The assessment was based on the following impairment indicators:

- Default or delinquency by the counter party; and
- Indications that the counter party will enter bankruptcy.

The amount of the provision was charged to profit or loss. Financial assets are written off only in circumstances where there are no realistic prospects of recovery.

*Financial assets carried at amortised cost*

For loans and receivables, the amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that had not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset was reduced and the amount of the loss was recognised in profit or loss. If a loan or held-to-maturity investment had a variable interest rate, the discount rate for measuring any impairment loss was the current effective interest rate determined under the contract. As a practical expedient, the Company could measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreased and the decrease could be related objectively to an event occurring after the impairment was recognised (such as improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss was recognised in profit or loss.

**3.8 Impairment of non-financial assets**

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of impairment at each reporting date. An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss.

**3.9 Accounts payable and accruals**

Liabilities are obligations to pay for goods and services received, whether or not billed to the Company. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method.

**3.10 Provisions**

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated.

**3.11 Borrowings**

Borrowings are initially recognized at the fair value (being proceeds received), net of eligible transaction costs incurred, if any. Subsequent to initial recognition, borrowings are measured at amortized cost using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in profit or loss over the period of the borrowings using the effective interest rate method.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

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**3.12 Employee termination benefits**

The Company provides end-of-service benefits to its employees. The entitlement to these benefits is usually based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds or high-quality corporate bonds.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and is recognised in profit or loss.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in other comprehensive income. They are included in accumulated deficit in the statement of changes in shareholders' equity and in the statement of financial position.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognised immediately in profit or loss as past service costs.

The calculation of defined benefit obligations is performed periodically using the projected unit credit method.

**3.13 Revenue**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Finance lease income is recognized over the term of the lease using the effective yield method.

**3.14 Expenses**

Selling, marketing, general and administrative expenses include direct and indirect costs not specifically part of cost of revenue as required under generally accepted accounting standards. Allocations between selling and marketing expenses, general and administrative expenses and cost of revenue, when required, are made on a consistent basis.

Insurance and other costs of financed vehicles are disclosed separately in profit or loss.

**3.15 Operating leases**

Rental expenses under operating leases are charged to profit or loss over the period of the respective lease.

**3.16 Zakat and income tax**

In accordance with the regulations of the General Authority of Zakat and Tax ("GAZT"), the Company is subject to zakat. As explained in Note 2.1, provision for zakat is charged to the statement of changes in shareholders' equity. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

The Company's zakat return is filed by AJHC, on a consolidated basis. AJHC allocates a portion of its total zakat liability to the Company which is charged to the statement of changes in shareholders' equity. Payments allocated are charged against the provision.

The Company withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian income Tax law.

**4 Critical accounting estimates and assumptions**

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. Significant area where management has used estimates, assumptions or exercised judgements is allowance for expected credit losses on lease receivables - Note 3.7 and Note 9. The impact arising from any change in forward looking information on the allowance for expected credit losses is immaterial.



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**5 Selling and marketing expenses**

	2018	2017
Salaries and benefits	15,768	15,994
Commissions and sales promotion	2,775	5,067
Rental	1,475	1,588
Advertising	990	2,433
Maintenance and cleaning	469	909
Subscriptions	215	318
Depreciation	213	156
Other	1,053	3,169
	<b>22,958</b>	<b>29,634</b>

**6 General and administrative expenses**

	2018	2017
Salaries and benefits	6,829	12,578
Depreciation and amortization	1,664	912
Rental	1,209	1,124
Professional services	1,045	1,000
Postage and communication	674	1,858
Travel and accommodation	281	1,054
Administrative expenses charged by a shareholder	5,970	7,612
Other	1,225	1,529
	<b>18,897</b>	<b>27,667</b>

**7 Property and equipment**

	January 1, 2018	Additions	Transfers	December 31, 2018
<b>2018</b>				
<b>Cost</b>				
Buildings and leasehold improvements	1,410	-	-	1,410
Furniture, fixtures and office equipment	6,347	-	229	6,576
Motor vehicles	796	-	41	837
Capital work-in-progress	274	2,097	(270)	2,101
	<b>8,827</b>	<b>2,097</b>	<b>-</b>	<b>10,924</b>
<b>Accumulated depreciation</b>				
Buildings and leasehold improvements	(256)	(71)	-	(327)
Furniture, fixtures and office equipment	(2,027)	(1,121)	-	(3,148)
Motor vehicles	(745)	(26)	-	(771)
	<b>(3,028)</b>	<b>(1,218)</b>	<b>-</b>	<b>(4,246)</b>
	<b>5,799</b>			<b>6,678</b>

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	January 1, 2017	Additions	Transfers	December 31, 2017
<b><u>2017</u></b>				
<b>Cost</b>				
Buildings and leasehold improvements	720	538	152	1,410
Furniture, fixtures and office equipment	3,110	-	3,237	6,347
Motor vehicles	774	22	-	796
Capital work-in-progress	8,174	2,080	(9,980)	274
	<u>12,778</u>	<u>2,640</u>	<u>(6,591)</u>	<u>8,827</u>
<b>Accumulated depreciation</b>				
Buildings and leasehold improvements	(221)	(35)	-	(256)
Furniture, fixtures and office equipment	(1,512)	(515)	-	(2,027)
Motor vehicles	(725)	(20)	-	(745)
	<u>(2,458)</u>	<u>(570)</u>	<u>-</u>	<u>(3,028)</u>
	<u>10,320</u>			<u>5,799</u>

**8 Intangible assets**

	2018	2017
<b>Cost</b>		
January 1	6,591	-
Additions	290	-
Transfers from capital work-in-progress	-	6,591
December 31	<u>6,881</u>	<u>6,591</u>
<b>Accumulated amortization</b>		
January 1	(498)	-
Amortization for the year	(659)	(498)
December 31	<u>(1,157)</u>	<u>(498)</u>
	<u>5,724</u>	<u>6,093</u>

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**9 Net investment in finance leases**

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

	2018	2017
Gross investment in finance leases	869,418	984,350
Unearned finance and insurance income	(168,913)	(181,002)
Present value of minimum lease payments receivable	700,505	803,348
Allowance for expected credit losses	(126,942)	(91,888)
Net investment in finance leases	573,563	711,460
Net investment in finance lease - non-current portion	(271,363)	(372,561)
Net investment in finance lease - current portion	302,200	338,899

**9.2 Credit quality analysis of investment in finance leases is as follows:**

	2018	2017
<b>Gross investment in finance lease</b>		
Not past due	675,527	804,010
Past due	193,891	180,340
	869,418	984,350
<b>Net investment in finance lease</b>		
Not past due	502,990	621,466
Past due	70,573	89,994
	573,563	711,460

**9.3 Maturity profile of gross investment in finance and present value of minimum lease payments receivables is as follows:**

	2018	2017
<b>Gross investment in finance leases</b>		
Within one year	438,712	502,843
From one to three years	293,627	315,177
Three to five years	137,079	166,330
	869,418	984,350
<b>Present value of minimum lease payments receivable</b>		
Within one year	369,084	430,788
From one to three years	216,169	233,073
Three to five years	115,252	139,487
	700,505	803,348

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**9.4 Movement in allowance for expected credit losses on lease receivables is as follows:**

	2018	2017
January 1 - calculated under IAS 39	91,888	45,472
Amounts restated through opening retained earnings	37,669	-
Opening loss allowance as at January 1, 2018 - calculated under IFRS 9	129,557	45,472
Net impact in loss allowance recognised in profit or loss during the year	2,629	46,416
Write-offs	(5,244)	-
As at December 31	126,942	91,888

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all lease receivables.

To measure the expected credit losses, lease receivables have been grouped based on shared credit risk characteristics for respective customer base portfolio and the days past due. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment.

A default on a financial asset is when the counterparty fails to make contractual payments within 90 days of when they fall due.

As explained in Note 2, the Company elected not to restate prior period, and accordingly, the difference between previous amount of the provision for impairment calculated on incurred loss model and provision for impairment calculated on expected loss model has been recognized in the opening accumulated losses and has been presented in the statement of changes in shareholders' equity.

January 1, 2018	Current	1 - 90 days past due	91 - 180 days past due	181-270 days past due	271 - 360 days past due	More than 360 days past due	Total
Expected loss rate	1% - 6%	3% - 10%	11% - 30%	22% - 38%	35% - 44%	35% - 100%	
Lease receivables	470,638	241,632	37,161	30,932	32,957	171,030	984,350
Loss allowance	12,057	15,821	8,690	10,467	13,790	68,732	129,557
December 31, 2018	Current	1 - 90 days past due	91 - 180 days past due	181-270 days past due	271 - 360 days past due	More than 360 days past due	Total
Expected loss rate	1% - 4%	3% - 7%	13% - 23%	25% - 36%	39% - 44%	39% - 100%	
Lease receivables	430,995	141,024	47,840	29,756	24,148	195,655	869,418
Loss allowance	10,077	6,903	8,819	9,815	9,765	81,563	126,942

The Company currently generates substantially all of its revenues from leasing of motor vehicles in KSA. Finance leases receivables of the Company are related to corporate and retail customers.

The credit risk on net investment in finance leases is generally mitigated by the retention of legal title documents on leased assets. Accordingly, such assets are collateralized against the lease receivables. As at December 31, 2018, the estimated value of such collateralized assets, amounted to Saudi Riyals 570.6 million.

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**10 Prepayments and other receivable**

	<b>Note</b>	<b>2018</b>	<b>2017</b>
Prepaid insurance		<b>325</b>	6,454
Insurance claims receivable		<b>23,812</b>	38,668
Due from related parties	<b>18</b>	<b>1,251</b>	413
Other		<b>7,934</b>	2,862
		<b>33,322</b>	48,397
Provision for expected credit losses		<b>(2,079)</b>	(5,402)
		<b>31,243</b>	42,995

Movement in allowance for expected credit losses on insurance claims and other receivables are as follows:

	<b>2018</b>	<b>2017</b>
January 1	<b>5,402</b>	3,139
Additions	-	2,263
Write-offs	<b>(3,323)</b>	-
December 31	<b>2,079</b>	5,402

At December 31, 2018, the Company had net outstanding insurance claims receivable amounting to Saudi Riyals 18.7 million (2017: Saudi Riyals 22.0 million) from an insurance service provider with which the Company has suspended its business activities. The Group is currently under negotiation for settlement of such amounts at the Group level and the balance is expected to be settled during 2019.

**11 Cash and cash equivalents**

	<b>2018</b>	<b>2017</b>
Cash at banks	<b>6,854</b>	5,286
Cash in hand	<b>148</b>	1,113
	<b>7,002</b>	6,399

**12 Long-term borrowings - Secured**

	<b>2018</b>	<b>2017</b>
As at December 31	<b>103,381</b>	150,256
Less: current maturity shown under current liabilities	<b>(46,875)</b>	(46,875)
	<b>56,506</b>	103,381

During 2016, the Company entered into a Murabaha Financing Agreement with a commercial bank amounting to Saudi Riyals 187.5 million secured against lease receivables. The loan is repayable in 48 equal monthly installments. The loan is denominated in Saudi Riyals and bears financial charges based on prevailing market rates. The covenants of the borrowing facility requires the Company to maintain certain level of financial condition and places limitation on dividends distribution, change in shareholding structure and disposal of its assets.

As at December 31, 2018, the Company has assigned lease receivables to the bank amounting to Saudi Riyals 128.8 million representing 125% of the principal loan balance outstanding at December 31, 2018. The Company has also opened a deposit/cash margin account with the bank with an equivalent of 10% of the total loan utilized pledged in favor of the bank during the term of the loan agreement.

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The loan is secured by corporate guarantee from AAC in addition to joint and several guarantees signed by shareholders of the Holding Company.

The movement in long-term borrowings is as follows:

	2018	2017
January 1	150,256	33,405
Proceeds from long-term borrowings	-	154,095
Finance costs for the year	5,551	5,087
Repayment of principal	(46,875)	(37,244)
Repayment of finance costs	(5,551)	(5,087)
December 31	103,381	150,256

The contractual maturities of long-term borrowings are as follows:

	2018	2017
Less than 1 year	46,875	46,875
Between 1 and 3 years	56,506	93,750
More than 3 years	-	9,631
	103,381	150,256

### 13 Employee termination benefits

#### 13.1 General description of the plan

The Company operates a defined benefit plan in line with the Labour Law requirement in the Kingdom of Saudi Arabia. The end of service benefit payments under the plan are based on the employees' final salaries and allowances and their cumulative years of service at the date of their termination of employment, as defined by the conditions stated in the labour laws of the Kingdom of Saudi Arabia. Employees' end of service benefit plans are unfunded plans and the benefit payment obligation are met when due. The latest valuation of employee benefit obligations under the projected unit credit method was carried out by an independent actuary as of December 31, 2018.

#### 13.2 Movement in net liability recognized in the statement of financial position

	2018	2017
January 1	9,911	9,278
Current service cost	1,521	1,874
Interest cost	281	248
Remeasurements	(2,259)	1,325
Benefits paid	(2,917)	(2,814)
December 31	6,537	9,911

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**13.3 Amounts recognized in statement of profit or loss and other comprehensive income**

	2018	2017
Current service cost	1,521	1,874
Interest expense	281	248
<b>Total amount recognised in profit or loss</b>	<b>1,802</b>	<b>2,122</b>

**Remeasurements**

Gain from change in financial assumptions	(72)	-
(Gain) loss from change in experience adjustments	(2,187)	1,325
<b>Total amount recognised in other comprehensive income</b>	<b>(2,259)</b>	<b>1,325</b>

**13.4 Key actuarial assumptions**

	2018	2017
Discount rate	4.50%	3.0%
Salary growth rate	4.50%	3.0%
Retirement age	60 years	60 years

**13.5 Sensitivity analysis for actuarial assumptions**

	Change in assumption		Impact on employee benefit obligations	
	Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.5%	0.5%	(290)	311
Salary growth rate	0.5%	0.5%	309	(292)

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of defined benefit obligation calculated with projected unit credit method at the end of the reporting period) has been applied when calculating the employee termination.

**13.6 Expected maturity analysis**

The weighted average duration of the defined benefit obligation is 9.18 years (2017: 15.7 years). The expected maturity analysis of employee benefit obligations (undiscounted) is as follows:

	Less than a year	Between 1 - 2 years	Between 2 - 5 years	Over 5 years	Total
<b>December 31, 2018</b>	<b>459</b>	<b>619</b>	<b>2,277</b>	<b>6,109</b>	<b>9,464</b>
December 31, 2017	285	59	539	14,663	15,546

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**14 Accrued and other liabilities**

	2018	2017
Advances from customers	9,300	8,739
Salaries and benefits	914	1,864
Other accrued liabilities	3,403	1,172
	<u>13,617</u>	<u>11,775</u>

**15 Zakat matters**

**15.1 Components of approximate zakat base**

The significant components of the approximate zakat base under zakat and income tax regulations, are summarized as follows:

	2018	2017
Share capital	400,000	400,000
Statutory reserve	6,294	6,294
Retained earnings	(64,545)	50,385
Provisions	107,201	50,801
Shareholder loan obligations at the end of the year	82,142	122,081
Adjusted net loss	(9,595)	(19,614)
Zakat payable	37,278	6,964
Property, plant and equipment, net	(6,678)	(5,799)
Intangible assets, net	(5,724)	(6,093)
Zakat base	<u>546,373</u>	<u>605,019</u>

Zakat is payable at 2.5 percent of the higher of approximate zakat base or adjusted net income.

**15.2 Provision for zakat**

	2018	2017
January 1	37,278	6,964
Provision for the year	13,883	14,775
Adjustments related to prior years	-	32,554
Payments	-	(17,015)
December 31	<u>51,161</u>	<u>37,278</u>

**15.3 Status of zakat assessments**

The zakat declaration is filed at the consolidated level of the AJHC group. During 2017, the assessment relating to the year 2015 was finalized and the Company recognized an additional charge of Saudi Riyals 10.0 million for 2015, representing the amount in excess of provision maintained by the Company for such years. During 2017, the Company also recognized additional zakat provision of Saudi Riyals 22.5 million for the year 2016. Zakat provision for the years 2017 and 2018 is being maintained after considering the disallowances made by GAZT in prior years.

The current and additional zakat provisions have been recognized in the statement of changes in shareholders' equity in accordance with SAMA's guidance.



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**16 Share capital**

The share capital of the Company as of December 31 comprised 400,000 shares stated at Saudi Riyals 1,000 per share, owned as follows:

Shareholder	Country of incorporation/ nationality	Shareholding percentage	
		2018	2017
AAC	Saudi Arabia	96	96
Al Jomaih Energy & Water Company Limited	Saudi Arabia	1	1
Al Jomaih Rent-a-Car Company	Saudi Arabia	1	1
Mr. Mohammed Abdul Aziz Abdullah Al Jomaih	Saudi	1	1
Mr. Hamad Abdul Aziz Abdullah Al Jomaih	Saudi	1	1
		<b>100</b>	<b>100</b>

**17 Statutory reserve**

In accordance with the Company's By-laws and the Regulations for Companies in the Kingdom of Saudi Arabia, the Company is required to transfer 10% of the net income for the year to a statutory reserve until it equals 30% of its share capital. This reserve currently is not available for distribution to the shareholders of the Company. No transfer was made in 2018 and 2017 due to the accumulated losses.

**18 Related party matters**

Related parties comprise the shareholders, directors, associated companies and key management personnel. Related parties also include business entities in which certain directors or senior management have an interest ("other related parties").

**18.1 Related party transactions**

Significant transactions with related parties included in the financial statements are summarized below:

	Relationship	2018	2017
Purchase of vehicles for leases	Shareholder	143,528	270,096
Shared service costs charged	Shareholder	5,970	7,612
Finance costs	Shareholder	3,241	4,598
Finance costs	Ultimate shareholder	3,546	4,860

**18.2 Key management personnel compensation**

	2018	2017
Salaries and other employee benefits	4,209	6,123

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**18.3 Related party balances**

**(a) Due to related parties**

	<b>2018</b>	<b>2017</b>
AJHC	<b>70,230</b>	95,946
Less: non-current portion	<b>(30,000)</b>	(70,000)
Current portion	<b>40,230</b>	25,946
 AAC	<b>95,011</b>	131,087
Total current	<b>135,241</b>	157,033

Amounts due to AAC are set off on daily basis based on the collections made by the AAC on behalf of the Company. These amounts bear financial charges at prevailing variable market rates.

Balance due to AJHC is repayable in equal quarterly installments up to 2020. These amounts bear financial charges at prevailing variable market rates. In accordance with the agreed practice between the Company and AJHC, a receivable balance of Saudi Riyals 11.9 million has been offset from the current portion of the above balance as at December 31, 2018 (2017: Saudi Riyals 26.1 million).

**(b) Due from related parties**

	<b>2018</b>	<b>2017</b>
Al Jomaih Bottling Plants Limited	<b>857</b>	298
Al Jomaih Automotive AC Delco	<b>175</b>	84
Al Jomaih Equipment Company Limited	<b>149</b>	20
Al Jomaih Tyres	<b>70</b>	11
	<b>1,251</b>	413

**19 Commitments**

The operating lease commitments for the Company's office premises are as follows:

	<b>2018</b>	<b>2017</b>
Less than one year	<b>361</b>	977
More than a year and less than five years	-	-
Total	<b>361</b>	977

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**20 Fair values of financial assets and financial liabilities**

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

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

**Level 2:** inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

**Level 3:** inputs that are unobservable.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

All financial assets and financial liabilities are categorised as held at amortized cost. Management believes that the fair values of the Company's financial assets and liabilities are not materially different from their carrying values. The breakdown of these financial assets and liabilities is as follows:

	Note	2018	2017
<b>Financial assets - at amortised cost</b>			
Cash and cash equivalents	11	7,002	6,399
Net investment in finance leases	9	573,563	711,460
Other receivables	10	30,918	36,541
Long-term deposit	12	18,750	18,750
		<u>630,233</u>	<u>773,150</u>
<b>Financial liabilities - at amortised cost</b>			
Accounts payable	12	23,248	13,494
Due to related parties	18	165,241	227,033
Accrued and other liabilities	14	13,167	11,775
Long-term borrowings	12	103,381	150,256
		<u>305,487</u>	<u>402,558</u>
<b>Net financial assets</b>		<u>324,746</u>	<u>370,592</u>

**21 Financial instruments and risk management**

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and commission rate risk), credit risk and liquidity risk. The Company's overall risk management program, which is carried out by senior management, focuses on having cost effective funding as well as managing financial risks to minimize earning volatility and provide maximum return to shareholders. The risks faced by the Company and their respective mitigating strategies are summarized below.

**21.1 Credit risk**

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation and cause a financial loss to the Company. The maximum exposure to credit risk is equal to the carrying amount of financial assets.

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The management analyses credit risk into the following categories:

**Net investment in finance leases**

Investment in finance lease receivables is generally exposed to significant credit risk. Therefore, the Company has established procedures to manage credit exposure including evaluation of lessees' credit worthiness, formal credit approvals, obtaining collateral such as title on leased assets, and personal guarantees whenever considered necessary. The Company also follows a credit classification mechanism as a tool to manage the quality of credit risk of the lease portfolio and grades the individual customers based on both subjectivity and credit history through Saudi credit bureau taking into consideration factors such as customer credit standing, financial strength and security. However, for the Small and Medium Sized Entities ("SME") and corporate customers, the Company focuses on the financial position, cash flows, working capital management, debt to shareholders' equity, turnover, historical financial and operational performance, personal guarantee and management quality.

The Company monitors customers' grading on a regular basis. The management believes that adequate provision has been accounted for, where required to address the credit risk. Further details related to net investment in finance leases and related risk are presented in Note 3.7 and Note 9 to these financial statements.

**Cash and cash equivalents and other receivables**

Cash is placed with banks having good credit ratings, and therefore are not subject to significant credit risk. Other receivables are not exposed to significant credit risk.

**21.2 Currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company has no significant exposure to currency risk as it mainly deals in Saudi Riyals which is also the functional currency of the Company.

**21.3 Fair value and cash flow interest rate risk**

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates. As disclosed in Note 12 and Note 18, the Company has interest bearing bank borrowings of Saudi Riyals 103.4 million as at December 31, 2018 (2017: Saudi Riyals 150.3 million) and certain interest bearing amounts due to related parties amounting to Saudi Riyals 165.2 million (2017: Saudi Riyals 227.0 million). Management reviews the exposure of the Company to interest rate risks on a regular basis. A 1% increase in the market rate would result in an additional charge to profit or loss of Saudi Riyals 0.1 million (2017: Saudi Riyals 0.1 million).

As at the date of statement of financial position, the Company has commission bearing financial assets amounting to Saudi Riyals 700.5 million. However, the commission rates have already been agreed with the respective customers upon inception of the respective contracts.

The Company's management monitors the fluctuations in interest rates on regular basis and believes that the interest rate risk is not material.

**21.4 Price risk**

The risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Company's financial instruments are not exposed to price risk.

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**21.5 Liquidity risk**

Liquidity risk reflects the Company's inability in raising funds to meet financial commitments. As at December 31, 2018, the Company's contractual maturities of financial liabilities are Saudi Riyals 225 million, Saudi Riyals 89 million and Nil for up to one year, one to three years and more than three years, respectively (2017: Saudi Riyals 235 million, Saudi Riyals 183 million and Saudi Riyals 10 million for up to one year, one to three years and more than three years, respectively). The Company manages liquidity risk through availability of financing through its related party and borrowings from commercial banks. As at statement of financial position date, based on the following maturity profile, the Company does not have significant exposure to liquidity risk. The maturity profile of the Company's financial assets and liabilities is as follows:

	Up to one year	One to three years	More than three years	Total
<b>Financial assets - commission bearing:</b>				
Net investment in finance leases	369,084	216,169	115,252	700,505
<b>Financial assets - non commission bearing:</b>				
Cash and bank balances	7,002	-	-	7,002
Other receivables	30,918	-	-	30,918
Long term deposit	-	18,750	-	18,750
<b>2018</b>	<b>407,004</b>	<b>234,919</b>	<b>115,252</b>	<b>757,175</b>
<b>2017</b>	<b>475,478</b>	<b>233,073</b>	<b>158,237</b>	<b>866,788</b>
<b>Financial liabilities - commission bearing:</b>				
Due to related parties	137,528	30,624	-	168,152
Long term borrowings	50,566	57,887	-	108,453
<b>Financial liabilities - non commission bearing:</b>				
Accounts payable	23,248	-	-	23,248
Accrued and other liabilities	13,617	-	-	13,617
<b>2018</b>	<b>224,959</b>	<b>88,511</b>	<b>-</b>	<b>313,470</b>
<b>2017</b>	<b>234,598</b>	<b>183,046</b>	<b>9,721</b>	<b>427,365</b>
<b>Net financial assets (2018)</b>				
Commission bearing	180,990	127,658	115,252	423,900
Non commission bearing	1,055	18,750	-	19,805
	<b>182,045</b>	<b>146,408</b>	<b>115,252</b>	<b>443,705</b>
<b>Net financial assets (2017)</b>				
Commission bearing	221,459	50,027	129,766	401,252
Non commission bearing	19,421	-	18,750	38,171
	<b>240,880</b>	<b>50,027</b>	<b>148,516</b>	<b>439,423</b>

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**22 Capital risk management**

The Company's objective when managing capital is to safeguard Company's ability to continue as a going concern in order to provide returns for the shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. Borrowings comprise long term borrowings from commercial bank and loan balance due to AJHC. The management analyzes the gearing ratio as follows:

	2018	2017
Shareholders' equity	279,775	341,749
Borrowings	173,611	246,202
Total	453,386	587,951
Gearing ratio (borrowings as a percentage of total)	38.29%	41.87%

Under the terms of the borrowing facility, the Company is required to comply with the following financial covenants:

- a) Current ratio should not be less than 1:1
- b) Borrowing leverage ratio should not be more than 2:1
- c) Lending leverage ratio should not be more than 3:1

The Company has complied with these covenants throughout the reporting period.

**23 Date of authorization of issue**

The accompanying financial statements were authorized for issuance by the Board of Directors on March 4, 2019.