

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

CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2018
AND REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

AL TAYSEER ARABIAN COMPANY
(A Saudi Closed Joint Stock Company)
CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2018

Table of contents	Page
Report on review of interim financial information	2
Condensed interim statement of financial position	3
Condensed interim statement of comprehensive income	4
Condensed interim statement of changes in shareholders' equity	5
Condensed interim statement of cash flows	6
Notes to the condensed interim financial information	7 - 12



Report on review of interim financial information

To the shareholders of Al Tayseer Arabian Company:
(A Saudi Closed Joint Stock Company)

Introduction

We have reviewed the accompanying condensed interim statement of financial position of Al Tayseer Arabian Company as of September 30, 2018 and the related condensed statement of comprehensive income for the three-month and nine-month periods then ended, and the condensed statements of changes in shareholders' equity and cash flows for the nine-month period ended September 30, 2018, and notes, comprising a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with International Accounting Standard 34 - "Interim Financial Reporting" ("IAS 34") as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax. Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity", as endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing, as endorsed in the Kingdom of Saudi Arabia, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information is not prepared, in all material respects, in accordance with IAS 34 as modified by SAMA for the accounting of zakat and income tax.

PricewaterhouseCoopers

Omar M. Al Sagga
License Number 369

October 25, 2018

AL TAYSEER ARABIAN COMPANY
(A Saudi Closed Joint Stock Company)
CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	As at September 30, 2018 (Unaudited)	As at December 31, 2017 (Audited)
Assets			
Current assets			
Cash and cash equivalents	3	4,363	6,399
Net investment in finance leases - current portion	4	261,218	338,899
Prepayments and other receivables	6	31,527	36,541
		<u>297,108</u>	<u>381,839</u>
Non-current assets			
Long-term deposit	7	18,750	18,750
Net investment in finance leases - non-current portion	4	308,869	372,561
Property and equipment		6,584	5,799
Intangible assets		5,600	6,093
		<u>339,803</u>	<u>403,203</u>
Total assets		<u>636,911</u>	<u>785,042</u>
Liabilities and shareholders' equity			
Liabilities			
Current liabilities			
Accounts payable		5,348	7,040
Accrued and other liabilities		12,583	11,775
Current maturity of long-term borrowings	7	46,875	46,875
Due to related parties - current portion	5	118,402	157,033
Zakat payable	8	47,690	37,278
		<u>230,898</u>	<u>260,001</u>
Non-current liabilities			
Long-term borrowings	7	68,225	103,381
Due to related parties - non-current portion	5	40,000	70,000
Employee termination benefits		8,829	9,911
		<u>117,054</u>	<u>183,292</u>
Total liabilities		<u>347,952</u>	<u>443,293</u>
Shareholders' equity			
Share capital		400,000	400,000
Statutory reserve		6,294	6,294
Accumulated deficit		(117,335)	(64,545)
Total shareholders' equity		<u>288,959</u>	<u>341,749</u>
Total liabilities and shareholders' equity		<u>636,911</u>	<u>785,042</u>

The accompanying notes from 1 to 10 form an integral part of this condensed interim financial information.

AL TAYSEER ARABIAN COMPANY
(A Saudi Closed Joint Stock Company)
CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	For the three-month period ended September 30,		For the nine-month period ended September 30,	
		2018	2017	2018	2017
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Income from finance leases, net		17,398	28,058	54,728	74,409
Expenses					
(Provision for) reversal of impairment, net insurance and other cost of financed vehicles	4.2	(10,920)	(6,572)	3,151	(43,219)
Selling and marketing		(7,296)	(9,105)	(22,937)	(28,150)
General and administrative		(8,472)	(5,028)	(20,434)	(18,304)
Net operating (loss) income		(2,855)	(1,177)	(10,397)	(17,740)
Other (expenses) income					
Finance costs		(3,798)	(3,538)	(10,570)	(9,836)
Other income		325	139	1,750	379
Net (loss) profit for the period		(15,618)	2,777	(4,709)	(42,461)
Other comprehensive income		-	-	-	-
Total comprehensive (loss) income for the period		(15,618)	2,777	(4,709)	(42,461)

The accompanying notes from 1 to 10 form an integral part of this condensed interim financial information.

AL TAYSEER ARABIAN COMPANY
(A Saudi Closed Joint Stock Company)
CONDENSED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
 (All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	Share capital	Statutory reserve	Retained earnings / (Accumulated deficit)	Total
December 31, 2017 - audited		400,000	6,294	(64,545)	341,749
Adjustment on adoption of IFRS 9	4	-	-	(37,669)	(37,669)
Balance at January 1, 2018		400,000	6,294	(102,214)	304,080
Net loss for the period		-	-	(4,709)	(4,709)
Other comprehensive income		-	-	-	-
Total comprehensive loss for the period		-	-	(4,709)	(4,709)
Zakat charge for the period	8	-	-	(10,412)	(10,412)
September 30, 2018 - unaudited		400,000	6,294	(117,335)	288,959
December 31, 2016 - audited		400,000	6,294	50,385	456,679
Net loss for the period		-	-	(42,461)	(42,461)
Other comprehensive income		-	-	-	-
Total comprehensive loss for the period		-	-	(42,461)	(42,461)
Zakat charge for the period		-	-	-	-
September 30, 2017 - unaudited		400,000	6,294	7,924	414,218

The accompanying notes from 1 to 10 form an integral part of this condensed interim financial information.

AL TAYSEER ARABIAN COMPANY
(A Saudi Closed Joint Stock Company)
CONDENSED INTERIM STATEMENT OF CASH FLOWS
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	For the nine-month period ended September 30,	
		2018 (Unaudited)	2017 (Unaudited)
Cash flows from operating activities			
Net loss for the period		(4,709)	(42,461)
<u>Adjustments for</u>			
(Reversal of) provision for impairment, net	4.2, 6	(3,151)	43,219
Depreciation and amortization		1,030	721
Finance costs		10,570	9,836
<u>Changes in working capital</u>			
Net investment in finance leases		106,855	58,884
Prepayments and other receivables		5,014	(8,844)
Accounts payable		(1,692)	5,316
Accrued and other liabilities		808	5,014
Finance costs paid		(10,570)	(9,836)
Employee termination benefits		(1,082)	412
Net cash generated from operating activities		<u>103,073</u>	<u>62,261</u>
Cash flows from investing activity			
Purchase of property and equipment		<u>(1,322)</u>	<u>(2,056)</u>
Cash flows from financing activities			
Due to related parties		(68,631)	(168,732)
Long-term borrowings obtained		-	154,095
Repayments of long-term borrowings		(35,156)	(25,525)
Long-term deposit		-	(18,750)
Net cash utilized in financing activities		<u>(103,787)</u>	<u>(58,912)</u>
Net change in cash and cash equivalents		(2,036)	1,293
Cash and cash equivalents at beginning of the period		<u>6,399</u>	<u>5,302</u>
Cash and cash equivalents at end of the period		<u>4,363</u>	<u>6,595</u>

The accompanying notes from 1 to 10 form an integral part of this condensed interim financial information.

AL TAYSEER ARABIAN COMPANY
(A Saudi Closed Joint Stock Company)
Notes to the condensed interim financial information
For the three-month and nine-month periods ended September 30, 2018 (Unaudited)
(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 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.

This condensed interim financial information has been reviewed, not audited.

2. Basis of preparation

2.1 The condensed interim financial information of the Company as at September 30, 2018 and for the three-month and nine-month periods ended September 30, 2018 has been prepared in accordance with International Accounting Standard 34 - Interim Financial Reporting ("IAS 34") 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 The condensed interim financial information do not include all information and disclosures required in the annual financial statements and should be read in conjunction with the annual financial statements for the year ended December 31, 2017.

2.3 The principal accounting policies applied in the preparation of this condensed interim financial information of the Company are consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of new and amended standards as set out below.

2.4 Standards issued but not yet effective

IFRS 16, 'Leases' was issued in January 2016. It will result in almost all leases being recognized on the balance sheet, 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 recognized. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard is mandatory for accounting periods beginning on or after January 1, 2019, but has not been early adopted by the Company. The Company intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. The Company is still in the process of assessing the impact of this standard.

2.5 New and amended standards adopted by the Company

A number of new or amended standards became applicable for the current reporting period and the Company had to change its accounting policies as a result of adopting IFRS 9 "Financial Instruments" ("IFRS 9"). In accordance with the transitional provisions of IFRS 9, comparative figures have not been restated and the adjustment arising from the new impairment rules has been recognised in the opening balance sheet on 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 impact of the adoption of this standard and the new accounting policies are disclosed in Note 4 and Note 2.6, respectively.

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

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Notes to the condensed interim financial information
For the three-month and nine-month periods ended September 30, 2018 (Unaudited)
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2.6 Changes in accounting policies

Financial Instruments

(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) 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 the profit or loss. Impairment losses are presented as separate line item in the profit or loss.

(iii) 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.

Other instruments are considered as low risk and the Company uses a provision matrix in calculating the expected credit losses.

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

	Original classification under IAS 39	New classification under IFRS 9	Original carrying value under IAS 39 As at January 1, 2018	New carrying value under IFRS 9
Financial assets				
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
Financial liabilities				
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

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Notes to the condensed interim financial information
For the three-month and nine-month periods ended September 30, 2018 (Unaudited)
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3. Cash and cash equivalents

	September 30, 2018	December 31, 2017
	(Unaudited)	(Audited)
Cash in hand	130	5,286
Cash at banks	4,233	1,113
	4,363	6,399

4. Net investment in finance leases

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

	September 30, 2018	December 31, 2017
	(Unaudited)	(Audited)
Gross investment in finance leases	857,011	984,350
Unearned finance income	(160,518)	(181,002)
Present value of minimum lease payments receivable	696,493	803,348
Provision for impairment	(126,406)	(91,888)
Net investment in finance leases	570,087	711,460
Investment in finance leases - non-current portion	(308,869)	(372,561)
Investment in finance leases - current portion	261,218	338,899

4.2 The movement in impairment provision for finance leases is as follows:

	For the nine- month period ended September 30, 2018	For the year ended December 31, 2017
	(Unaudited)	(Audited)
Opening balance	91,888	45,472
Adjustment on adoption of IFRS 9	37,669	-
Opening balance after IFRS 9 adjustment	129,557	45,472
(Reversal) charge for the period/year	(3,151)	46,416
Closing balance	126,406	91,888

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 deficit as of January 1, 2018 and has been presented in the condensed interim statement of changes in shareholders' equity.

AL TAYSEER ARABIAN COMPANY
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Notes to the condensed interim financial information
For the three-month and nine-month periods ended September 30, 2018 (Unaudited)
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5. Related party transactions and balances

The Company is a member of group of companies which is directly or indirectly controlled by AJHC (collectively "related parties").

5.1 Significant transactions with related parties included in the condensed interim financial information are summarized below:

	For the three-month period ended September 30		For the nine-month period ended September 30	
	2018 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2017 (Unaudited)
Purchase of vehicles for leases from AAC	15,439	52,202	89,040	201,526
Shared service costs charged by (to) a shareholder, net	904	(187)	2,293	2,686
Financial cost charged by AAC	1,667	2,240	2,691	3,961
Financial cost charged by AJHC	956	1,181	3,462	3,521
Key management personnel				
Salaries and other employee benefits	1,518	1,600	4,345	9,202

5.2 Due to related parties

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
AJHC	52,554	95,946
Less: non-current portion	(40,000)	(70,000)
	12,554	25,946
AAC - current portion	105,848	131,087
Total current portion	118,402	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. A receivable balance of Saudi Riyals 38.6 million has been offset from the current portion of the above balance as at September 30, 2018 (December 31, 2017: Saudi Riyals 28.1 million).

AL TAYSEER ARABIAN COMPANY
(A Saudi Closed Joint Stock Company)
Notes to the condensed interim financial information
For the three-month and nine-month periods ended September 30, 2018 (Unaudited)
(All amounts in Saudi Riyals thousands unless otherwise stated)

5.3 Due from related parties

	September 30, 2018	December 31, 2017
	(Unaudited)	(Audited)
Al Jomaih Bottling Plants Limited	753	298
Al Jomaih Automotive AC Delco	154	84
Al Jomaih Equipment Company Limited	120	20
Al Jomaih Tyres	50	11
	1,077	413

6. Prepayments and other receivables

	September 30, 2018	December 31, 2017
	(Unaudited)	(Audited)
Prepaid insurance	4,274	-
Insurance claims receivable	26,927	38,668
Other	2,405	3,275
	33,606	41,943
Provisions for impairment	(2,079)	(5,402)
	31,527	36,541

Movement in provision for doubtful insurance claims and other receivables is as follows:

	For the nine- month period ended September 30, 2018	For the year ended December 31, 2017
	(Unaudited)	(Audited)
Opening balance	5,402	3,139
Charge for the period/year	-	2,263
Write-offs	(3,323)	-
Closing balance	2,079	5,402

Insurance claims receivable represent Company's claims with insurance companies against the insurance of its vehicles sold under financing lease. Other receivables include fines and penalties paid by the Company which are receivable from the customers and certain amounts due from related parties of Saudi Riyals 1.1 million (December 31, 2017: Saudi Riyals 0.4 million) as indicated in Note 5.

At September 30, 2018, the Company had net outstanding insurance claims receivable amounting to Saudi Riyals 18.7 million (December 31, 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.

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Notes to the condensed interim financial information
For the three-month and nine-month periods ended September 30, 2018 (Unaudited)
(All amounts in Saudi Riyals thousands unless otherwise stated)

7. Long-term borrowings - secured

	September 30, 2018	December 31, 2017
	(Unaudited)	(Audited)
Long-term borrowings	115,100	150,256
Less: current maturity shown under current liabilities	(46,875)	(46,875)
	68,225	103,381

During the year 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 levels of financial condition, places limitations on dividends distribution, changes in shareholding structure and disposal of its assets.

As at September 30, 2018, the Company has assigned lease receivables to the bank amounting to Saudi Riyals 143.9 million representing 125% of the outstanding loan balance as of September 30, 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.

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

8. Provision for zakat

	For the nine- month period ended September 30, 2018	For the year ended December 31, 2017
	(Unaudited)	(Audited)
Opening balance	37,278	6,964
Charged for the period / year to retained earnings	10,412	14,775
Provision related to prior years charged to retained earnings	-	32,554
Payments	-	(17,015)
Closing balance	47,690	37,278

Status of 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 year. Zakat provision for the year ended December 31, 2016 and 2017 have also been maintained on similar lines in anticipation of similar disallowances by the General Authority of Zakat and Tax. The assessments for the years 2016 and 2017 have not been received from the GAZT.

9. Comparative figures

For better presentation, insurance premium payable amounting to Saudi Riyals 6.5 million under accounts payable has been reclassified and offset against prepaid insurance with the same insurance company under prepayments and other receivables in the comparative financial information to conform to 2018 presentation.

10. Date of authorization of issue

The accompanying condensed interim financial information was authorized for issuance by the Company's Board of Directors on October 25, 2018.