

**TAAJEER FINANCE LEASE COMPANY  
(A SAUDI CLOSED JOINT STOCK COMPANY)**

**UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS  
AND REVIEW REPORT**

**FOR THE THREE-MONTH PERIOD ENDED  
31 MARCH 2019**

**TAAJEER FINANCE LEASE COMPANY**  
**(A SAUDI CLOSED JOINT STOCK COMPANY)**  
**INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2019**

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**BAKER TILLY**

MKM & CO. Certified Public Accountants

## INDEPENDENT AUDITOR'S REVIEW REPORT

### To the shareholders

Taajeer Finance Lease Company

(a Saudi Closed Joint Stock Company)

### Introduction

We have reviewed the accompanying interim condensed statement of financial position of Taajeer Finance Lease Company (a Saudi Closed Joint Stock Company) ("the Company") as at 31 March 2019 and the related interim condensed statement of comprehensive income, changes in shareholders' equity and cash flows for the three-month period then ended and other explanatory notes. Management is responsible for the preparation and fair presentation of these interim condensed financial statements in accordance with IAS 34 "Interim Financial Reporting" as modified by Saudi Arabian Monetary Authority (SAMA) for accounting of zakat and income tax. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

### Scope of review

We conducted our review in accordance with 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 condensed financial statements consists of making inquiries, primarily of the 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 (ISAs) 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 interim condensed financial statements are not prepared, in all material respects, in accordance with IAS 34 as modified by SAMA for accounting of zakat and income tax.

**BAKER TILLY MKM & CO.**

*Certified Public Accountants*

Ayad Obeyan Alseraihi

License No. 405

Jeddah on 28 April 2019

Corresponding to 23 Shaban 1440H



**TAAJEER FINANCE LEASE COMPANY**  
**(A SAUDI CLOSED JOINT STOCK COMPANY)**  
**INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)**  
**FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2019**

	<i>Note</i>	<i>For the three-month period ended</i>	
		<i>31 March</i>	<i>31 March</i>
		<i>2019</i>	<i>2018</i>
		<i>SR</i>	<i>SR</i>
Finance income	4	8,597,931	6,327,481
Finance costs	7	(1,939,508)	(1,141,622)
<b>Net finance income</b>		<b>6,658,423</b>	<b>5,185,859</b>
Fee income		1,473,631	854,650
Insurance reimbursed/(paid), net		2,237,040	1,899,159
Rebate on purchase of vehicles		411,693	291,845
Net gain on securitization of receivables	4	21,321,769	-
Other operating income		657,598	133,886
<b>Total operating income</b>		<b>32,760,154</b>	<b>8,365,399</b>
Selling and distribution expenses		(2,380,011)	(2,643,684)
General and administrative expenses		(5,634,319)	(4,009,205)
Impairment of net investment in finance lease	4	(4,868,967)	(3,252,165)
Other operating expenses		(242,836)	(122,905)
<b>Total operating expenses</b>		<b>(13,126,133)</b>	<b>(10,027,959)</b>
<b>Net operating profit / (loss)</b>		<b>19,634,021</b>	<b>(1,662,560)</b>
Unwinding of net service liability		681,760	-
<b>Profit / (loss) for the period</b>		<b>20,315,781</b>	<b>(1,662,560)</b>
Other comprehensive income for the period		-	-
<b>Total Comprehensive income / (loss) for the period</b>		<b>20,315,781</b>	<b>(1,662,560)</b>

The attached notes form an integral part of these unaudited interim condensed financial statements.

**TAAJEER FINANCE LEASE COMPANY**  
**(A SAUDI CLOSED JOINT STOCK COMPANY)**  
**INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION (UNAUDITED)**  
**AS AT 31 MARCH 2019**

	<i>Note</i>	<i>As at</i>	
		<i>31 March</i>	<i>31 December</i>
		<i>2019</i>	<i>2018</i>
		<i>SR</i>	<i>SR</i>
<b>ASSETS</b>			
Cash and bank balances	3	36,762,738	16,200,846
Prepayments and other receivables		14,994,853	7,902,674
Due from a related party	6	27,336,101	5,818,095
Vehicles available for lease		2,503,056	1,595,024
Net investment in finance lease	4	347,067,903	421,877,947
Net deferred consideration receivable	4	10,984,901	-
Investment classified as at FVTOCI		892,850	892,850
Property and equipment		4,222,609	2,057,628
Intangibles		3,438,390	3,624,418
<b>TOTAL ASSETS</b>		<b>448,203,401</b>	<b>459,969,482</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>LIABILITIES</b>			
Trade payables	5	53,131,384	38,784,630
Due to related parties	6	48,452,211	127,861,500
Zakat payable	8	2,523,953	-
Net servicing liability	4	9,861,146	-
Long term loan	7	137,935,234	114,888,258
Employee termination benefits		993,503	920,952
<b>TOTAL LIABILITIES</b>		<b>252,897,431</b>	<b>282,455,340</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital		200,000,000	200,000,000
Statutory reserve		140,991	140,991
Accumulated losses		(4,835,021)	(22,626,849)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>195,305,970</b>	<b>177,514,142</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>448,203,401</b>	<b>459,969,482</b>

The attached notes form an integral part of these unaudited interim condensed financial statements.

**TAAJEER FINANCE LEASE COMPANY**  
(A SAUDI CLOSED JOINT STOCK COMPANY)  
**INTERIM CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)**  
**FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2019**

	<i>Share capital</i>	<i>Statutory reserve</i>	<i>Accumulated losses</i>	<i>Total</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
<b>For the three-month period ended</b>				
<b>31 March 2019:</b>				
Balance as at 31 December 2018	<b>200,000,000</b>	<b>140,991</b>	<b>(22,626,849)</b>	<b>177,514,142</b>
Profit for the period	-	-	<b>20,315,781</b>	<b>20,315,781</b>
Other comprehensive income	-	-	-	-
Total comprehensive loss for the period	-	-	<b>20,315,781</b>	<b>20,315,781</b>
Zakat charge for the period	-	-	<b>(2,523,953)</b>	<b>(2,523,953)</b>
<b>Balance as at 31 March 2019</b>	<b>200,000,000</b>	<b>140,991</b>	<b>(4,835,021)</b>	<b>195,305,970</b>
<b>For the three-month period ended</b>				
<b>31 March 2018:</b>				
Balance as at 31 December 2017	100,000,000	-	(20,501,428)	79,498,572
Impact of initial adoption of IFRS 9	-	-	(3,394,346)	(3,394,346)
Restated balance as at 1 January 2018	100,000,000	-	(23,895,774)	76,104,226
Profit for the period	-	-	(1,662,560)	(1,662,560)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the period	-	-	(1,662,560)	(1,662,560)
<b>Balance as at 31 March 2018</b>	<b>100,000,000</b>	<b>-</b>	<b>(25,558,334)</b>	<b>74,441,666</b>

The attached notes form an integral part of these unaudited interim condensed financial statements.

**TAAJEER FINANCE LEASE COMPANY**  
**(A SAUDI CLOSED JOINT STOCK COMPANY)**  
**INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)**  
**FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2019**

	<i>Note</i>	<i>For the three-month period ended</i>	
		<i>31 March 2019</i>	<i>31 March 2018</i>
		<i>SR</i>	<i>SR</i>
<b>OPERATING ACTIVITIES</b>			
Net profit / (loss) for the period		<b>20,315,781</b>	(1,662,560)
Adjustments for non-cash items:			
Impairment of net investment in finance lease	<b>4</b>	<b>4,868,967</b>	3,252,165
Finance costs		<b>1,939,508</b>	1,141,622
Depreciation and amortization		<b>394,931</b>	230,804
Employee termination benefits incurred		<b>153,045</b>	129,804
Net gain on securitization of receivables	<b>4</b>	<b>(21,321,769)</b>	-
Unwinding of net service liability		<b>681,760</b>	-
		<b>7,032,223</b>	3,091,835
Changes in working capital:			
Prepayments and other receivables		<b>(7,092,179)</b>	(150,801)
Net investment in finance lease	<b>4</b>	<b>89,457,331</b>	(73,403,382)
Due from related party		<b>(21,518,006)</b>	-
Vehicles available for lease		<b>(908,032)</b>	101,290
Long term loan, net	<b>7</b>	<b>23,046,976</b>	93,213,172
Trade payables		<b>14,032,133</b>	(5,949,907)
Due to related parties		<b>(79,409,289)</b>	11,350,730
Cash from operations		<b>24,641,157</b>	28,252,937
Financial charges paid		<b>(1,624,887)</b>	(905,136)
Employee termination benefits paid		<b>(80,494)</b>	(9,788)
Net cash from operating activities		<b>22,935,776</b>	27,338,013
<b>INVESTING ACTIVITIES</b>			
Purchase of property and equipment		<b>(2,373,884)</b>	(347,699)
Purchase of intangibles		-	(1,153,796)
Net cash used in investing activities		<b>(2,373,884)</b>	(1,501,495)
<b>NET INCREASE IN CASH AND BANK BALANCES</b>			
Cash and bank balances at the beginning of the period	<b>3</b>	<b>16,200,846</b>	7,509,461
<b>CASH AND BANK BALANCES AT THE END OF THE PERIOD</b>	<b>3</b>	<b>36,762,738</b>	33,345,979

The attached notes form an integral part of these unaudited interim condensed financial statements.

**TAAJEER FINANCE LEASE COMPANY**  
**(A SAUDI CLOSED JOINT STOCK COMPANY)**  
**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2019**

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**1 ORGANIZATION AND ACTIVITIES**

Taajeer Finance Lease Company (the "Company") is a Saudi Closed Joint Stock Company, registered in the Kingdom of Saudi Arabia under Commercial Registration number 4030289565 issued on 17 Sha'ban 1437H (corresponding to 24 May 2016).

The Company's head office is in Jeddah. The principal activity of the Company is to engage in the following business activities in the Kingdom of Saudi Arabia:

- a) Small and Medium Enterprises (SME) Financing
- b) Finance leasing

On 29 Safar 1438H (corresponding to 29 November 2016), the Company received a license from Saudi Arabian Monetary Authority (SAMA) to undertake both finance leasing and small and medium enterprises (SME) financing in the Kingdom of Saudi Arabia under license number 46/AU/201611.

The Company is a subsidiary of Al Ahdaf Al Mumaizah Company Limited (the "Parent Company"). The ultimate parent of the Company is Taajeer Group ("Ultimate Parent"). Saudi shareholders own the Company, the Parent and the Ultimate Parent of the Company.

As at 31 March 2019, the Company operates through 6 branches (31 March 2018: 7 branches). The accompanying interim condensed financial statements include the assets, liabilities and results of the Company and these branches.

**2 BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE**

**2.1 Basis of preparation**

**a) *Basis of measurement***

These financial statements are prepared under the historical cost convention using the accrual basis of accounting, except as indicated otherwise.

**b) *Functional and presentation currency***

These financial statements have been presented in Saudi Riyal, which is the functional and presentation currency of the Company.

**2.2 Statement of compliance**

During 2017, the Saudi Arabian Monetary Authority (SAMA) issued Circular no. 381000074519 dated 11 April 2017 and subsequent amendments through certain clarifications relating to the accounting for Zakat and income tax. The impact of these amendments is that Zakat and income tax are to be accrued on a quarterly basis through shareholders' equity under retained earnings.

Applying the above framework, the interim condensed financial statements of the Company as at and for the three-month period ended 31 March 2019 have been prepared using International Accounting Standard 34 "Interim Financial Reporting" (IAS 34) as modified by SAMA for accounting of zakat and income tax.

These interim condensed financial statements do not include all the information required for the annual financial statements.

The interim condensed financial statements may not be considered indicative of the expected results for the full year.



**TAAJEER FINANCE LEASE COMPANY**  
(A SAUDI CLOSED JOINT STOCK COMPANY)  
**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED) (continued)**  
**FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2019**

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**2 BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE (continued)**

**2.3 Significant accounting Judgments, estimates and assumptions**

The preparation of the Company's interim condensed financial statements requires management to make judgments, estimates and assumptions that will affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period, are described below. The Company based its assumptions and estimates on parameters available when the interim condensed financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

***Derecognition of securitized receivables***

As explained in note 4, management exercises professional judgment in determining whether the purchase and agency agreement transfers substantially all the risks and rewards of ownership of securitized lease receivables to the bank and whether such receivables should be derecognized accordingly.

***Determination of net deferred consideration receivable***

As also explained in note 4, in order to calculate the net deferred consideration receivable under the purchase and agency agreement, the Company uses assumptions to calculate the allowance for delinquent receivables and discounts for premature terminations of contracts based on historical trends which are updated periodically (at least once in a year or more frequently when needed) based on a change in circumstances which indicate that the historical rates may not be appropriate.

***Impairment of financial assets***

The measurement of impairment losses requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Company's ECL calculation is an output of a complex model with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies.

Elements of the ECL model that are considered accounting estimates include:

- The Company's internal credit grading model, which assigns Probabilities of Default (PDs) to the individual pool of receivables;
- The Company's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime Expected Credit Loss (LTECL) basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels, and the effect on PDs; and
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL model.

**TAAJEER FINANCE LEASE COMPANY**  
(A SAUDI CLOSED JOINT STOCK COMPANY)  
**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED) (continued)**  
**FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2019**

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**2 BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE (continued)**

**2.4 Impact of changes in accounting policies due to adoption of new standards**

The accounting policies adopted in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31 December 2018, except for the adoption of new standards effective as of 1 January 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Company applies, for the first time, IFRS 16 Leases that requires restatement of previous financial statements. As required by IAS 34, the nature and effect of these changes are disclosed below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the interim condensed financial statements of the Company.

***IFRS 16 - Leases***

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transaction Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

The Company adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. The Company elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Company also elected to use the recognition exemptions for lease contracts that, at the commencement date have a lease term of 12 months or less and do not contain a purchase option ('short term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

Although there is change in accounting policy, however, management assessed and concluded that there is no material impact on the amounts reported at transition to IFRS 16 on 1 January 2019.

**2.5 New accounting policies**

Set out below are the new accounting policies of the Company upon adoption of IFRS 16:

***Right-of-use assets***

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

**TAAJEER FINANCE LEASE COMPANY**  
**(A SAUDI CLOSED JOINT STOCK COMPANY)**  
**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED) (continued)**  
**FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2019**

**2 BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE (continued)**

**2.5 New accounting policies (continued)**

*Lease liabilities*

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

**3 CASH AND BANK BALANCES**

	<i>31 March 2019</i>	<i>31 December 2018</i>
	<i>SR</i>	<i>SR</i>
Cash in hand	<b>286,131</b>	-
Bank balances	<b>36,476,607</b>	16,200,846
	<b>36,762,738</b>	16,200,846

**4 NET INVESTMENT IN FINANCE LEASE**

	<i>31 March 2019</i>	<i>31 December 2018</i>
	<i>SR</i>	<i>SR</i>
Gross investment in finance lease	<b>548,261,893</b>	665,206,077
Less: unearned finance income	<b>(176,086,424)</b>	(220,496,506)
	<b>372,175,469</b>	444,709,571
Less: allowance for expected credit losses	<b>(25,107,566)</b>	(22,831,624)
Net investment in finance lease	<b>347,067,903</b>	421,877,947

**TAAJEER FINANCE LEASE COMPANY**  
(A SAUDI CLOSED JOINT STOCK COMPANY)  
**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED) (continued)**  
**FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2019**

**4 NET INVESTMENT IN FINANCE LEASE (continued)**

	<i>31 March 2019</i>			
	<i>Gross investment</i>	<i>Unearned finance income</i>	<i>Allowance for expected credit losses</i>	<i>Net investment</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
Current portion	157,621,768	(64,165,488)	(6,304,714)	87,151,566
Non-current portion	390,640,125	(111,920,936)	(18,802,852)	259,916,337
	<u>548,261,893</u>	<u>(176,086,424)</u>	<u>(25,107,566)</u>	<u>347,067,903</u>
	<i>31 December 2018</i>			
	<i>Gross investment</i>	<i>Unearned finance income</i>	<i>Allowance for expected credit losses</i>	<i>Net investment</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
Current portion	161,932,273	(69,956,341)	(4,722,094)	87,253,838
Non-current portion	503,273,804	(150,540,165)	(18,109,530)	334,624,109
	<u>665,206,077</u>	<u>(220,496,506)</u>	<u>(22,831,624)</u>	<u>421,877,947</u>

**4.1 Movement in allowance for expected credit losses**

	<i>For the three-month period ended 31 March 2019</i>	<i>For the year ended 31 December 2018</i>
	<i>SR</i>	<i>SR</i>
At the beginning of the period / year	22,831,624	3,048,549
Impact of initial adoption of IFRS 9	-	3,394,346
Allowance related to derecognized receivables	(2,593,025)	-
Provided during the period / year	4,868,967	16,388,729
	<u>25,107,566</u>	<u>22,831,624</u>

**4.2 Ageing of gross finance lease receivables**

	<i>31 March 2019</i>	<i>31 December 2018</i>
	<i>SR</i>	<i>SR</i>
Not due	536,759,117	654,609,488
1 – 3 months over due	4,326,841	4,529,019
4 – 6 months over due	2,659,939	2,989,746
7 – 12 months over due	3,500,480	2,438,559
Over 12 months over due	1,015,516	639,265
	<u>548,261,893</u>	<u>665,206,077</u>

**TAAJEER FINANCE LEASE COMPANY**  
**(A SAUDI CLOSED JOINT STOCK COMPANY)**  
**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED) (continued)**  
**FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2019**

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**4 NET INVESTMENT IN FINANCE LEASE (continued)**

**4.3 Securitized receivables**

The Company has entered into a purchase and agency agreement (the ‘agreement’) with a local bank in respect of securitization of certain finance leases (the ‘receivables’).

Under the terms of the purchase and agency agreement, the Company first sells the eligible receivables to the bank and then manages them on behalf of the bank as an agent for a monthly fee as per the terms of the agreement.

During the three-month period ended 31 March 2019, the Company sold SR 109.5 million of its net receivables and the total amount received from the bank in respect of such sale was SR 127.8 million. Upon sale, the Company derecognises the receivables from its books and recognises the difference as either gain or loss on derecognition of receivables (see note c). There were no securitization transactions before this period.

The following are the significant terms of the agreement:

- a) The Company continues to manage the sold receivables on behalf of the bank for a fee (agency fee). The total settlement of net receivables to be made to the bank (as per the agreed cash flows), as an agent under purchase and agency arrangements amount to SR 166.9 million as at 31 March 2019.
- b) The agreement is supported by a “cash flow statement” which stipulates the principal amount and the monthly receivables falling due. Under the terms of the agreement, the Company, in the capacity of an agent, settles to the bank a monthly amount based on the cash flow statement. The amount of the next month’s repayment is recognized as a liability and included in ‘payable under purchase and agency agreement’ (see note 5).
- c) A reserve is to be maintained out of the monthly receipts, which is to be distributed at the end of the term of the agreement after deducting the actual defaults and discounts due to premature terminations. The balance in the reserve account after deducting the actual defaults and discounts shall be retained by the Company as deferred consideration on sale of receivables. Any shortfall in the reserve account is to be borne by the bank.

During the three-month period ended 31 March 2019, the Company recognized a gain amounting to SR 21.3 million on derecognition of receivables sold to the bank under the agreement.

**TAAJEER FINANCE LEASE COMPANY**  
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**4 NET INVESTMENT IN FINANCE LEASE (continued)**

**4.3 Securitized receivables (continued)**

The present value of deferred consideration receivable is calculated by deducting the present value of expected defaults and discounts to be incurred over the life of the agreement from the present value of reserve amount to be received per the cash flow statement. This represents the net deferred consideration receivable by the Company under the agreements calculated as follows:

	<i>31 March</i> <i>2019</i>	<i>31 December</i> <i>2018</i>
	<i>SR</i>	<i>SR</i>
Present value of deferred consideration receivable	<b>13,577,926</b>	-
Less: allowance for expected defaults and early termination	<b>(2,593,025)</b>	-
Net deferred consideration receivable	<b>10,984,901</b>	-

The Company's net servicing assets and related liabilities are calculated separately for each agreement by calculating the present value of servicing assets, as per the terms of the agreement and by estimating the present value of servicing liability and related provisions. The net amount is classified as a net servicing asset or a net servicing liability on the interim condensed statement of financial position. This has been presented as follows:

	<i>31 March</i> <i>2019</i>	<i>31 December</i> <i>2018</i>
	<i>SR</i>	<i>SR</i>
Present value of servicing asset	<b>4,446,188</b>	-
Less: Present value of servicing liability	<b>(14,307,334)</b>	-
Net servicing liability	<b>(9,861,146)</b>	-

The present value of net deferred consideration receivable and the present value of net servicing liability is calculated by using a discount rate of 7.58%.

**5 TRADE PAYABLES**

	<i>31 March</i> <i>2019</i>	<i>31 December</i> <i>2018</i>
	<i>SR</i>	<i>SR</i>
Accounts payables to suppliers of vehicles	<b>31,143,666</b>	26,923,536
Accrued expenses	<b>9,897,715</b>	4,506,303
Payable under purchase and agency agreement	<b>4,892,890</b>	-
Advance from customers	<b>3,290,604</b>	3,328,048
Other payables	<b>3,906,509</b>	4,026,743
	<b>53,131,384</b>	38,784,630

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**6 RELATED PARTY TRANSACTIONS AND BALANCES**

Related parties represent, major shareholders, Directors and key management personnel of the Company, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Company's management.

a) Following are the details of related party transactions entered during the period:

<b>Related Party</b>	<b>Nature of transaction</b>	<b><i>For the three-month period ended</i></b>	
		<b><i>31 March</i></b>	<b><i>31 March</i></b>
		<b><i>2019</i></b>	<b><i>2018</i></b>
		<b><i>SR</i></b>	<b><i>SR</i></b>
Ultimate Parent	Collections from the Company's customers	<b>10,525,111</b>	12,699,485
	IT expense allocated to the Company	-	399,248
Others	Purchase of vehicles	<b>20,591,239</b>	18,485,325
	Purchase of Insurance services	-	553,645

b) Due from related parties comprise the following:

	<b><i>31 March</i></b>	<b><i>31 December</i></b>
	<b><i>2019</i></b>	<b><i>2018</i></b>
	<b><i>SR</i></b>	<b><i>SR</i></b>
Taajeer Group	<b>27,336,101</b>	4,778,575
Salama Cooperative Insurance Company	-	1,039,520
	<b>27,336,101</b>	<b>5,818,095</b>

c) Due to related parties comprise the following:

	<b><i>31 March</i></b>	<b><i>31 December</i></b>
	<b><i>2019</i></b>	<b><i>2018</i></b>
	<b><i>SR</i></b>	<b><i>SR</i></b>
Taajeer International Company Limited	<b>47,270,038</b>	127,208,266
Taajeer National Company for Maintenance and Integrated Services	<b>1,176,173</b>	647,234
Awaed Company	<b>6,000</b>	6,000
	<b>48,452,211</b>	<b>127,861,500</b>

**7 LONG TERM LOAN**

The long-term loan was obtained from a local bank to finance working capital requirements. The loan is secured by personal guarantees of the shareholders and carry commercial profit rate.

**8 ZAKAT**

The Company is subject to the Regulations of the General Authority of Zakat and Tax (GAZT) in the Kingdom of Saudi Arabia. According to the previous Zakat Regulations, Holding Companies and their fully owned subsidiaries are required to submit a consolidated declaration with GAZT and settle Zakat obligations on consolidated basis. Accordingly, no provision for zakat was made in these financial statements of the Company and any Zakat liability / settlement of the Company is being considered in the books of Taajeer Group up to 31 December 2018.

On 7 Rajab 1440H, corresponding to 14 March 2019, new Zakat regulations were issued. The new regulations specified new basis for calculating Zakat for financing institutions and required them to file their Zakat separately from non-financing institutions. Accordingly, the Company recognized zakat charge for the three-month period ended 31 March 2019 in equity. The zakat charge for current period includes an amount of SR 492 thousands which relate to zakat differences of previous periods.

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**9 LEASE COMMITMENTS**

Operating lease commitments represent rentals payable by the Company for certain office properties. Leases are negotiated for an average renewable term of 1 year and rentals are fixed for the same period. Future minimum rentals as at 31 March 2019 payable under non-cancellable operating leases amounted to SR 382,000 (31 March 2018: SR 352,500).

**10 FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Company's financial assets consist of cash and bank balances, net investment in finance lease, investment classified as FVTOCI, net deferred consideration receivable, due from related parties and other receivables. Its financial liabilities consist of due to related parties, trade payables, long term loans and payables under purchase and agency agreement.

The fair values of the financial instruments are not materially different from their carrying amounts except for the net investment in finance leases.

**11 BOARD OF DIRECTORS' APPROVAL**

These financial statements were approved by the Board of Directors on 25 April 2019 (corresponding to 20 Sha'ban 1440H).