ABDUL LATIF JAMEEL UNITED REAL ESTATE FINANCE COMPANY

(A SAUDI CLOSED JOINT STOCK COMPANY)

FINANCIAL STATEMENTS AND AUDITOR'S REPORT

31 DECEMBER 2017

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INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Abdul Latif Jameel United Real Estate Finance Company
(A Saudi Closed Joint Stock Company)

Opinion
We have audited the financial statements of Abdul Latif Jameel United Real Estate Finance Company (a Saudi Closed Joint Stock Company) (the "Company"), which comprise the statement of financial position as at 31 December 2017, and the statement of comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended, and summary of significant accounting policies and other explanatory notes from 1 to 24.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as modified by Saudi Arabian Monetary Authority (SAMA) for accounting of zakat and income tax.

Basis for Opinion
We conducted our audit in accordance with International Standards on Auditing ("ISAs") as 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 are independent of the Company in accordance with professional code of conduct and ethics, as 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Directors and Those Charged with Governance for the Financial Statements
The Directors are responsible for the preparation and fair presentation of the financial statements in accordance with the IFRSs as modified by SAMA for the accounting of zakat and income tax, the applicable requirements of the regulations for Companies in the Kingdom of Saudi Arabia and Company's By-laws, and for such internal control as Directors determine 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, the Directors are 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 the Directors either intend 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.

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 ISAs as 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 ISAs as endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit.

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INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Abdul Latif Jameel United Real Estate Finance Company
(A Saudi Closed Joint Stock Company) (continued)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

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 the Directors' 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.

We also provide the management with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on other legal and regulatory requirements
Based on the information that has been made available to us while performing our audit procedures, nothing has come to our attention that causes us to believe that the Company is not in compliance, in all material aspects, with the applicable requirements of the regulations for Companies and Company's By-laws in so far as they affect the preparation and presentation of the financial statements.

for Ernst & Young

Ahmed I. Reda
Certified Public Accountant
License No. 356

4 March 2018
16 Jumada II 1439H

Jeddah
17/386/00

ERNST & YOUNG & Co. PUBLIC ACCOUNTANTS
PROFESSIONAL LICENCE No. 45

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2017

	Note	***2017*** ***SR***	*2016* *SR* *(Restated)*
Revenues	5	**14,355,189**	7,465,591
Direct costs		**(207,330)**	(132,550)
GROSS MARGIN		**14,147,859**	7,333,041
Net change in present value of assets and liabilities relating to derecognized receivables		**206,951**	205,637
TOTAL OPERATING INCOME		**14,354,810**	7,538,678
Selling and marketing expenses	6	**(1,859,416)**	(2,596,338)
General and administrative expenses	7	**(9,494,749)**	(11,119,028)
Reversal / (impairment charge) against net investment in finance lease	10(a)	**278,941**	(1,010,964)
TOTAL OPERATING EXPENSES		**(11,075,224)**	(14,726,330)
INCOME / (LOSS) FROM OPERATIONS		**3,279,586**	(7,187,652)
Finance income	13	**873,947**	2,895,285
Reversal of provision no longer required		**-**	620,700
NET INCOME / (LOSS) FOR THE YEAR		**4,153,533**	(3,671,667)
OTHER COMPREHENSIVE INCOME			
Items that cannot be reclassified to statement of comprehensive income in subsequent periods:			
Actuarial gains relating to employee benefits liabilities	15	**521,000**	310,000
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR		**4,674,533**	(3,361,667)
Basic and diluted income / (loss) per share (expressed in SR per share)	18	**0.21**	(0.18)

The attached notes 1 to 24 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Note	***31 December 2017 SR***	*31 December 2016 SR (Restated)*	*31 December 2015 SR*
ASSETS				
NON-CURRENT ASSETS				
Property and equipment	9	**306,601**	1,881,432	3,499,868
Net investment in finance lease	10	**120,928,287**	72,824,758	42,304,650
Investment classified as available-for-sale	11	**892,850**	-	-
Advances to employees		**719,009**	519,449	497,270
TOTAL NON-CURRENT ASSETS		**122,846,747**	75,225,639	46,301,788
CURRENT ASSETS				
Net investment in finance lease	10	**19,969,895**	8,962,312	7,913,887
Properties purchased for lease contracts		**-**	-	12,770,000
Due from related parties	17	**93,276**	55,186	97,573
Prepayments and other receivables	12	**1,580,124**	1,658,416	1,711,823
Cash and bank balances	13	**49,831,622**	107,429,526	138,513,302
TOTAL CURRENT ASSETS		**71,474,917**	118,105,440	161,006,585
TOTAL ASSETS		**194,321,664**	193,331,079	207,308,373
SHAREHOLDERS' EQUITY AND LIABILITIES				
SHAREHOLDERS' EQUITY				
Share capital	1(a)	**200,000,000**	200,000,000	200,000,000
Statutory reserve	14	**839**	839	839
Accumulated losses		**(22,135,614)**	(25,342,409)	(19,761,764)
Actuarial gains, net		**966,000**	445,000	135,000
TOTAL SHAREHOLDERS' EQUITY		**178,831,225**	175,103,430	180,374,075
NON-CURRENT LIABILITIES				
Employee benefits liabilities	15	**2,326,516**	3,480,532	3,349,513
Other non-current liability	20(e)	**1,268,660**	1,470,529	1,663,530
TOTAL NON-CURRENT LIABILITIES		**3,595,176**	4,951,061	5,013,043
CURRENT LIABILITIES				
Due to related parties	17	**31,951**	172,277	155,198
Accounts payable, accrued and other liabilities	16	**11,863,312**	13,104,311	21,766,057
TOTAL CURRENT LIABILITIES		**11,895,263**	13,276,588	21,921,255
TOTAL LIABILITIES		**15,490,439**	18,227,649	26,934,298
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**194,321,664**	193,331,079	207,308,373

The attached notes 1 to 24 form an integral part of these financial statements.

ABDUL LATIF JAMEEL UNITED REAL ESTATE FINANCE COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2017

	Share capital SR	*Statutory reserve SR*	*Accumulated losses SR (Restated)*	*Actuarial gains, net SR*	*Total SR*
Balance as at 31 December 2016 (Restated)	200,000,000	839	(25,342,409)	445,000	175,103,430
Net income for the year	-	-	4,153,533	-	4,153,533
Net change in actuarial gains on employee benefits liabilities (see note 15)	-	-	-	521,000	521,000
Total comprehensive income for the year	-	-	4,153,533	521,000	4,674,533
Zakat charge for the year (see note 8 and 21)	-	-	(946,738)	-	(946,738)
Balance as at 31 December 2017	**200,000,000**	**839**	**(22,135,614)**	**966,000**	**178,831,225**
Balance as at 31 December 2015	200,000,000	839	(19,761,764)	135,000	180,374,075
Net loss for the year (restated) (see note 21)	-	-	(3,671,667)	-	(3,671,667)
Net change in actuarial gains on employee benefits liabilities (see note 15)	-	-	-	310,000	310,000
Total comprehensive loss for the year (restated)	-	-	(3,671,667)	310,000	(3,361,667)
Zakat charge for the year (Restated) (see note 8 and 21)	-	-	(1,908,978)	-	(1,908,978)
Balance as at 31 December 2016 (Restated)	200,000,000	839	(25,342,409)	445,000	175,103,430

The attached notes 1 to 24 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS
For the year ended 31 December 2017

	Note	***2017*** ***SR***	*2016* *SR* *(Restated)*
OPERATING ACTIVITIES			
Net income / (loss) for the year		**4,153,533**	(3,671,667)
Adjustments to reconcile income / (loss) to net cash flows:			
Depreciation	9	**1,644,976**	1,630,607
(Gain) / loss on disposal of property and equipment		**(1,195)**	28,778
(Reversal) / impairment charge against net investment in finance lease	10 (a)	**(278,941)**	1,010,964
Finance income		**(873,947)**	(2,895,285)
Reversal of provision no longer required		**-**	(620,700)
Net change in present value of assets and liabilities relating to derecognition of receivables		**(206,951)**	(205,637)
Provision for employee benefits liabilities	15	**495,988**	559,000
		4,933,463	(4,163,940)
Changes in operating assets and liabilities:			
Net investment in finance lease		**(58,625,220)**	(32,373,860)
Prepayments and other receivables and advances to employees		**(186,207)**	185,203
Properties purchased for lease contracts		**-**	12,770,000
Due from related parties		**(38,090)**	42,387
Accounts payable, accrued and other liabilities		**12,832**	(7,123,569)
Due to related parties		**(140,326)**	(90,045)
Cash used in operations		**(54,043,548)**	(30,753,824)
Zakat paid	8	**(2,365,094)**	(3,019,456)
Employee benefits liabilities paid	15	**(1,166,348)**	(10,857)
Net cash used in operating activities		**(57,574,990)**	(33,784,137)
INVESTING ACTIVITIES			
Investment classified as available-for-sale	11	**(892,850)**	-
Purchase of property and equipment	9	**(70,150)**	(40,949)
Proceeds from sale of property and equipment		**1,200**	-
Finance income received		**938,886**	2,741,310
Murabaha deposits		**3,762,139**	(3,762,139)
Net cash from / (used in) investing activities		**3,739,225**	(1,061,778)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(53,835,765)**	(34,845,915)
Cash and cash equivalents at the beginning of the year		**103,667,387**	138,513,302
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	13	**49,831,622**	103,667,387
NON-CASH TRANSACTIONS			
Employee benefits liabilities transferred in, net	15	**37,344**	107,124
Actuarial gains relating to employee benefits liabilities	15	**521,000**	310,000

The attached notes 1 to 24 form an integral part of these financial statements.

1 ORGANIZATION AND ACTIVITIES

Abdul Latif Jameel United Real Estate Finance Company (the "Company") is a Saudi Closed Joint Stock Company, initially registered in the Kingdom of Saudi Arabia as a Limited Liability Company under Commercial Registration number 4030213864, issued on 18 Rajab 1432H, (corresponding to 20 June 2011).

The Company's head office is in Jeddah. The principal activity of the Company is to engage in the financing of real estate in the Kingdom of Saudi Arabia.

a) Share capital of the Company

As at 31 December 2017, 2016 and 2015, the share capital of the Company is owned as follows:

	No. of shares of SR 10 Each	***31 December 2017 SR***	*31 December 2016 SR*	*31 December 2015 SR*
Bader First United Company Limited	200,000	**2,000,000**	2,000,000	2,000,000
Najed Al Raeda United Company Limited	200,000	**2,000,000**	2,000,000	2,000,000
Taif First United Company Limited	200,000	**2,000,000**	2,000,000	2,000,000
Al Mumaizah United Services Company Limited	200,000	**2,000,000**	2,000,000	2,000,000
Al Mumaizah United Commerce Company Limited	19,200,000	**192,000,000**	192,000,000	192,000,000
	20,000,000	**200,000,000**	200,000,000	200,000,000

The Company is a subsidiary of Al Mumaizah United Commerce Company Limited (the "Parent Company"). The ultimate parent of the Company is United Instalment Sales Company Limited ("UIS" or "Ultimate Parent"). The Company, its parent and the ultimate parent of the Company are wholly owned by Saudi shareholders.

b) Change in the name of the Company and conversion of the Company from a Limited Liability Company to a Saudi Closed Joint Stock Company

The Ministerial Decision number 302, announcing the change of the name of the Company to Abdul Latif Jameel United Real Estate Finance Company to change the status of the Company from a Limited Liability Company to a Saudi Closed Joint Stock Company, was received on 4 Muharram 1436H (corresponding to 28 October 2014). The comparative figures for financial period 2015, presented on the statement of financial position and related movements in the notes to the financial statements are for the period from 28 October 2014 to 31 December 2015.

c) License from Saudi Arabian Monetary Authority (SAMA)

During 2013, in order to comply with the new finance regulations, the Company filed an application with Saudi Arabian Monetary Authority (SAMA). On 15 Safar 1436H (corresponding to 7 December 2014), the Company received the license from SAMA to undertake real estate finance activities in the Kingdom of Saudi Arabia under license number 27/PU/201412.

d) Branches of the Company

As at 31 December 2017, the Company operates through 3 branches (2016: 3 branches). The accompanying financial statements include the assets, liabilities and results of these branches.

2 BASIS OF PREPARATION

2.1 Statement of compliance

During 2017, the Saudi Arabian Monetary Authority (SAMA) issued a 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 financial statements of the Company as at and for the year ended 31 December 2017 have been prepared:

i) In accordance with International Financial Reporting Standards (IFRSs) as modified by the Saudi Arabian Monetary Authority (SAMA) for accounting of zakat and income tax', which requires, adoption of all IFRSs 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.

ii) In compliance with the requirement of the regulations for Companies in the Kingdom of Saudi Arabia and Company's By-laws.

Until 2016, the financial statements of the Company were prepared in accordance with the International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB), the requirements of the regulations for Companies in the Kingdom of Saudi Arabia and Company's By-laws.

This change in framework resulted in a change in accounting policy for zakat (as disclosed in note 2.4.2) and the effects of this change are disclosed in note 21 to these financial statements.

2.2 Basis of preparation and presentation

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

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

2.3 Significant accounting judgments, estimates and assumptions

The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) as modified by SAMA for the accounting of Zakat and income tax, requires the use of certain critical accounting estimates, assumptions and judgments that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Such estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. Significant areas where management has used estimates, assumptions or exercised judgments are as follows:

Going concern
The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern. Therefore, the financial statements have been prepared on a going concern basis.

Determination of servicing liability
As explained in note 20, under the purchase and agency agreement, the Company has been appointed by the bank to service the receivables purchased by the bank. Assumptions used to calculate the servicing asset / liability are based on estimates of collection costs to be incurred by the Company over the life of the purchase and agency agreement.

2 BASIS OF PREPARATION (continued)

2.3 Significant accounting judgments, estimates and assumptions (continued)

Determination of expected defaults and discounts
As explained in note 20, 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 based on historical trends and future expectations 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 trends may not be appropriate.

Determination of discount rate for present value calculations
Discount rates represent the current market assessment of the risks specific to each cash flow stream, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Company and is derived from recent market transactions and a market yields overview.

Actuarial valuation of employee benefits liabilities
The cost of the end-of-service and ex-gratia benefits ("employee benefits") under defined unfunded benefit plans is determined using actuarial valuation. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, and mortality rates. Due to the complexity of the valuation and its long-term nature, a defined unfunded benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed on an annual basis or more frequently, if required.

Useful lives of property and equipment
The management determines the estimated useful lives of its property and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

Impairment of non-financial assets
The carrying amounts of the non-financial assets are reviewed at the end of each reporting date or more frequently to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognized if the carrying amount of an asset or a cash-generating unit exceeds the recoverable amount. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present values using the pre-zakat discount rate that reflects the current market assessments of time value of money and the risks specific to the asset. The fair value less cost to sell is based on observable market prices or, if no observable market prices exist, estimated prices for similar assets or if no estimated prices for similar assets are available, then based on discounted future cash flow calculations.

Impairment of receivables under finance lease
An estimate of the collectible amount of receivables under finance lease is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and an allowance applied according to the length of time past due, based on historical recovery rates.

At the reporting date, outstanding finance lease receivables were SR 143,246,759 (2016: SR 84,414,588; 2015: SR 51,607,287) and the allowance for doubtful debts relating to finance lease receivables was SR 2,348,577 (2016: SR 2,627,518; 2015: 1,388,750). Any difference between the amounts actually collected in future periods and the amounts expected will be recognized in the statement of comprehensive income of those periods.

2 BASIS OF PREPARATION (continued)

2.3 Significant accounting judgments, estimates and assumptions (continued)

Fair value measurement of financial instruments
When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility.

2.4 New and amended accounting standards and interpretations

The accounting policies used in the preparation of these financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2016 except for the adoption of SAMA guidance for the accounting of Zakat and income tax, as mentioned in notes 2.1 and 2.4.2, and the amendments to existing standards mentioned below note 2.4.1. The amendments mentioned in note 2.4.1 below did not have any material impact on the financial statements of the Company on the current year or prior years and is expected to have an insignificant effect in future periods.

2.4.1 Amendments to the existing standards

- Amendments to IAS 7, Statement of cash flows on disclosure initiative: Applicable for annual periods beginning on or after 1 January 2017.

  These amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. This amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.

  These adoptions have no material impact on the financial statements.

- Annual Improvements to IFRSs 2014-2016 Cycle (Amendments to IFRS 12 Disclosure of Interests in Other Entities):

  The amendments clarify that the disclosure requirements in IFRS 12 apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale or distribution. These amendments apply retrospectively.

2.4.2 Zakat

As set out in note 2.1, the Company has amended its accounting policy relating to zakat and have started to charge zakat for the period directly to retained earnings with a corresponding liability recognized in the statement of financial position. Previously, zakat was charged to the statement of comprehensive income with a corresponding liability recognized in the statement of financial position.

The Company has accounted for this change in accounting policy relating to Zakat retrospectively and the effects of above change are disclosed in note 21 to these financial statements.

2.5 Standards issued but not yet effective

Implementation and impact analysis of IFRS 9 *Financial Instruments*

Implementation strategy
In July 2014, the IASB issued IFRS 9 Financial Instruments, the standard that replaced IAS 39 Financial Instruments: Recognition and Measurement effective from 1 January 2018, with early adoption permitted. The Company considers implementing IFRS 9 as a significant project and therefore has set up a multidisciplinary implementation team with members from its Credit risk and Modeling, Finance, IT, Operations and other respective businesses to achieve a successful and robust implementation. The project is managed by the Chief Financial Officer and Head of Risk Management.

2 BASIS OF PREPARATION (continued)

2.5 Standards issued but not yet effective (continued)

Implementation and impact analysis of IFRS 9 *Financial Instruments (continued)*

Financial Assets
The classification and measurement of financial assets (except equity instruments and derivatives) will depend on how these are managed (the entity's business model) and their contractual cash flow characteristics. These factors determine whether the financial assets are measured at amortised cost, fair value through other comprehensive income ('FVOCI') or fair value through profit or loss ('FVTPL'). For equity instruments that are not held for trading, the entity may irrevocably elect to designate them as FVOCI, with no subsequent reclassification of gains or losses to the income statement. This election is made on an investment-by-investment basis.

The Company's financial assets for classification and measurement comprises of cash and bank balances, investment in available-for-sale instrument, due from related parties, deferred consideration receivable, employees' receivables and other receivables. The majority of financial assets that are classified as loans and receivables and are measured at amortised cost under IAS 39 are expected to be measured at amortised cost under IFRS 9 as well. However, financial assets that are currently classified as available for sale (AFS) will satisfy the conditions for classification as at fair value through other comprehensive income (FVOCI) and hence there will be no change in the accounting for these assets except for new impairment requirements.

Financial Liabilities
The Company's financial liabilities primarily consist of due to related parties, accounts payable and other liabilities and payable under purchase and agency agreements. Under IFRS 9, the accounting for financial liabilities will largely remain similar to IAS 39.

The de-recognition rules have been transferred from IAS 39 and have not been changed. The Company therefore does not expect any material impact on its financial liabilities and the de-recognition accounting policy.

Impairment
The Company will recognise impairment allowances based on a forward looking Expected Credit Loss (ECL) approach on financial assets that are not measured via FVTPL. These include net investment in finance lease, due from related parties, deferred consideration receivable, employees' receivables and other receivables. The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD)
- Loss given default (LGD)
- Exposure at default (EAD)

The above parameters are generally derived from internally developed statistical models, other historical data and are adjusted for forward looking information. The Company will categorise its financial assets into following three stages in accordance with IFRS 9 methodology:

- **Stage 1:** Performing assets: Financial asset(s) that have not significantly deteriorated in credit quality since origination. The impairment allowance will be recorded based on 12 months ECL.
- **Stage 2:** Underperforming assets: Financial asset(s) that have significantly deteriorated in credit quality since origination. This credit quality assessment is made by comparing the remaining lifetime PD as at reporting date with the remaining lifetime PD point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations). The impairment allowance will be recorded based on lifetime ECL.
- **Stage 3:** Impaired assets: For Financial asset(s) that are impaired, the Company will recognise the impairment allowance based on lifetime ECL.

2 BASIS OF PREPARATION (continued)

2.5 Standards issued but not yet effective (continued)

Implementation and impact analysis of IFRS 9 *Financial Instruments (continued)*

Impairment (continued)
The Company will also consider the forward-looking information in its assessment of significant deterioration in credit risk since origination as well as the measurement of ECLs.

The forward-looking information will include the elements such as macroeconomic factors (e.g. housing index and oil prices) and economic forecasts obtained through external sources.

To evaluate a range of possible outcomes, the Company intends to formulate various scenarios. For each scenario, the Company will derive an ECL and apply a probability weighted approach to determine the impairment allowance in accordance with the accounting standards requirements.

Overall expected impact
The Company has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of IFRS 9 on 1 January 2018:

- According to transitional provisions for initial application of IFRS 9, the Company is allowed to recognise any difference between previous carrying amount under IAS 39 and the carrying amount at the beginning of the annual reporting period that includes the date of initial application in opening shareholders' equity.
- Based on the foregoing, the Company expects a net increase of 0.11% to 0.14% in its total shareholders' equity as at the transition date, represented primarily by decrease in impairment charge for lease receivable at the transition date.

Classification
Based on management's assessment of business models and nature of financial instruments carried at the reporting date, it expects that the majority of financial assets that are measured at amortised cost under IAS 39 are expected to be measured at amortised cost under IFRS 9 as well.

Disclosure
The new standard also introduces extended disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Company's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Governance and controls
The Company's Program included the establishment of a Governance framework (the "Framework") and related controls. The Program is supported by a Steering Committee that includes representation from Finance and other stakeholders as well as the involvement of Risk, IT and subject matter experts in the areas of methodology reviews, data sourcing, risk modelling, and formulating judgements with respect to the aspects of significant increase in credit risk determination, macroeconomic assumptions and forward looking factors. The Framework and related controls are currently in the process of approvals by the senior management and governance committees.

Caveat:
The foregoing assessment above is a point in time estimate and is not a forecast. The actual effect of the implementation of IFRS 9 on the Company could vary significantly from this estimate. The Company continues to refine models, methodologies and controls, and monitor developments in regulatory rule-making in advance of IFRS 9 adoption.

2 BASIS OF PREPARATION (continued)

2.5 Standards issued but not yet effective (continued)

Implementation and impact analysis of IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 Revenue from contracts with customers provides a framework that replaces the existing revenue recognition model under IAS 18. Entities applying IFRS 15 would need to apply a five-step model to determine when to recognize revenue and at what amount. The model specifies that revenue should be recognized when an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. The Company is in the process of evaluating how the new revenue recognition model will impact its revenue generating arrangements.

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 Transactions 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. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

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.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. The Company is carrying impact assessment and will make more detailed assessments of the effect in the future to determine the impact of IFRS 16.

2 BASIS OF PREPARATION (continued)

2.5 Standards issued but not yet effective (continued)

Following is a brief on the other new IFRSs and amendments to IFRSs effective for annual periods beginning on or after 1 January 2018.

Standard, amendment or interpretation	Summary of requirements	Effective for annual periods beginning on or after
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions	1 January 2018
Annual improvements cycle IFRS 3 and IAS 23	The standards affected under the 2015-2017 annual improvements cycle, and the subjects of the amendments are: - IFRS 3 business combinations and IFRS 11 Joint arrangements - previously held interest in a joint operation. - IAS 23 Borrowing Costs - borrowing costs eligible for capitalization.	1 January 2019
Amendments to IAS 40	The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.	1 January 2018
IFRIC 22	The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration.	1 January 2018
Amendments to IAS 28	IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment - by - investment choice.	1 January 2019
Amendments to IAS 28	The amendments clarify that the entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.	1 January 2019
Amendments to IFRS 9	Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.	1 January 2019

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted for the preparation of these financial statements are as follows:

Current versus non-current classification
The Company presents assets and liabilities in statement of financial position based on current / non-current classification. An asset is classified as current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:
- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current.

Fair value measurement
The Company measures investment classified as available-for-sale at fair value at each statement of financial position date.

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

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

The principal or the most advantageous market must be accessible to the Company.

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)
For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company determines classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Revenue Recognition

Leasing
Gross investment in finance lease represents the gross lease payments receivable by the Company, and the net investment represents the present value of these lease payments discounted at interest rate implicit in the lease. The difference between the gross investment and the net investment is recognized as unearned finance income. Finance lease income is recognized over the period of the lease on a systematic basis, which results in a constant periodic rate of return on the net investment outstanding.

Contract fee income
Contract fee income less any directly attributable expenses is deferred and recognized over the period of the contract, as an adjustment to the effective interest rate.

Income from purchase and agency agreement
Income from purchase and agency agreement represents management fees due under the purchase and agency agreement with the bank and is recognized on an accrual basis.

Finance income
Finance income is recognized on an accrual basis using the effective yield basis.

Expenses
Selling and marketing expenses principally comprise of costs incurred in the marketing and sale of the Company’s products / services. All other expenses are classified as general and administrative expenses.

General and administrative expenses include direct and indirect costs not specifically part of the operating activities of the Company. Allocations between general and administrative expenses and direct costs, when required, are made on a consistent basis.

Zakat
Zakat is provided in accordance with the regulations of the General Authority of Zakat and Tax (GAZT) in the Kingdom of Saudi Arabia and on accruals basis. As set out in the note 2.1, zakat charge for year is charged directly to the statement of changes in shareholder’s equity with a corresponding liability recognized in the statement of financial position. Differences, if any, resulting from the final assessments are adjusted in the year of their finalization.

Foreign currency translation
Foreign currency transactions are translated into Saudi Riyals at the rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-translated at the exchange rates prevailing at that date. Gains and losses from settlement and translation of foreign currency transactions are included in the statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment
Depreciable property and equipment are stated at cost less accumulated depreciation and impairment in value, if any. Expenditure on maintenance and repairs is expensed, while expenditure for betterment is capitalized. Depreciation is provided over the estimated useful lives of the applicable assets using the straight-line method. The estimated rates of depreciation of the principal classes of assets are as follows:

The estimated rates of depreciation of the principal classes of assets are as follows:

Furniture, fixtures and office equipment	20% - 25%
Computer equipment	33.33%

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of comprehensive income.

Capital work-in-progress
Capital work-in-progress represents all costs relating directly and indirectly to the project in progress and is capitalized as property and equipment when the project is completed.

Impairment of non-current assets
The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

These calculations are corroborated by valuation multiples or other available fair value indicators.

Impairment losses of continuing operations are recognized in the statement of comprehensive income if those expense categories are consistent with the function of the impaired asset. For assets excluding goodwill, 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 Company 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 the statement of comprehensive income.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement

i) Financial assets

Initial recognition and measurement
The Company determines the classification of its financial assets at initial recognition. All financial assets are recognized initially at fair value plus, directly attributable transaction costs, if any.

Financial assets comprises of cash and bank balances, net investment in finance lease, available-for-sale, due from related parties, deferred consideration receivable, employees' receivables and other receivables and are initially measured at fair value and thereafter stated at cost or amortized cost as reduced by allowance for doubtful receivables and impairment, if any.

Subsequent measurement
For purposes of subsequent measurement financial assets are mainly classified as investment classified as available-for-sale, net investment in finance lease and loans and receivables

Investment in financial instruments
Available-for-sale (AFS) financial assets consists of an investment in a equity instrument. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at fair value through profit or loss. AFS investment in this category are those that are intended to be held for an indefinite period of time.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealised gains or losses recognised in other comprehensive income and credited to the AFS reserve until the investment is derecognised, at which time, the cumulative gain or loss is recognised in other comprehensive income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the statement of comprehensive income.

Net investment in finance lease and loans and receivables
Net investment in finance lease is carried at amortized cost, less any amounts written off and allowance for doubtful debts. Gross investment in finance lease represents the gross lease payments receivable by the Company and the net investment represents the present value of these lease payments, discounted at interest rate implicit in the lease. The difference between the gross investment and unearned finance income represents net investment which is stated net of allowance for doubtful debts.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are carried at amortised cost using the effective interest rate (EIR) method, less any amounts written off and allowance for doubtful debts. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

Derecognition of financial assets
A financial asset or, where applicable a part of a financial asset or part of a group of similar financial assets is derecognized when:

- the contractual right to receive cash flows from the asset has expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Any resulting gains or losses on derecognition of financial assets are recognized at the time of derecognition of financial assets.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

i) Financial assets (continued)

Derecognition of financial assets (continued)
When the Company has transferred its contractual right to receive cash flows from an asset or has entered into a "pass through" arrangement, whereby it has assumed an obligation to pay cash flows from an asset in full without material delay to a third party, but has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset.

Where the Company is appointed to service the derecognized financial assets for a fee (agency fee), the Company recognizes either a net servicing asset or a net servicing liability for that servicing contract. If the fee to be received is not expected to compensate the Company adequately for performing the service, a net servicing liability for the servicing obligation is recognized at its fair value.

If the fee to be received is expected to be more than adequate compensation for the services to be provided, a servicing asset is recognized for the servicing right. Following initial recognition, net servicing assets, being intangible assets, are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Net servicing assets are amortized over their definite useful economic life (in conformity with the collection arrangements with the bank) and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation of net servicing asset is charged to the statement of comprehensive income.

Impairment of financial assets
The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The estimated future cash flows are discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in the statement of comprehensive income. Assets together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the statement of comprehensive income.

ii) Financial liabilities

Initial recognition and measurement
The Company determines the classification of its financial liabilities at initial recognition. Financial liabilities are recognized initially at fair value plus, directly attributable transaction costs (where applicable) and thereafter stated at their amortized cost.

Financial liabilities are classified according to the substance of contractual arrangements entered into. Significant financial liabilities include due to related parties, accounts payable and payable under purchase and agency agreement.

Subsequent measurement
Financial liabilities are subsequently recognized for amounts to be paid in the future for services received, whether billed by the supplier or not.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

ii) Financial liabilities (continued)

Derecognition of financial liability
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When 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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of comprehensive income.

iii) Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Properties purchased for lease contracts
Properties purchased for lease contracts are recognised in the statement of financial position as a current asset. Amounts payable to the landlord are recorded under current liabilities in the statement of financial position. Once the legal title of the property is transferred in the Company's name and the finance lease contract is signed with the customer, these assets become part of the net investment in finance lease.

Provisions
Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are discounted using a discount rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Employee benefits liabilities
These represent end-of-service and ex-gratia benefits ("employee benefits") under defined unfunded benefit plans. End-of-service benefits, as required by Saudi Arabia Labor Law, are required to be provided based on the employees' length of service. Ex-gratia benefits represent additional post-employment benefits payable to those employees who leave the Company after completing a minimum of ten years of service.

The Company's net obligations in respect of defined unfunded benefit plans ("the obligations") is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognized past service costs.

The discount rate used is the market yield on high quality corporate bonds at the reporting date that has maturity dates and the risk profile approximating the terms of the Company's obligations. The cost of providing benefits under the defined benefit plans is determined using the projected unit credit method to determine the Company's present value of the obligation, with actuarial valuations to be carried out every third year and updated for the following two years for material changes, if any. The defined benefit liability comprises the present value of defined benefit obligation as adjusted for any past service cost not yet recognized. Currently there are no past service costs. The full amount of actuarial gains and losses are recognized in statement of changes in shareholders' equity in the year in which they arise.

Leases
Finance leases are those where the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. As lessee, the Company classifies its leases as operating leases and the rentals payments are charged to the statement of comprehensive income on a straight line basis.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and bank balances
For the purpose of the statement of cash flows, cash and cash equivalents consist of cash on hand, cash in bank and short-term murabaha deposits with original maturity of three months or less.

4 SEGMENT REPORTING

A segment is a distinguishable component of the Company that is engaged either in providing products or services (a business segment) or in providing products or services within a particular economic environment (a geographic segment), which is subject to risks and rewards that are different from those of other segments.

The Company carries out its activities entirely in the Kingdom of Saudi Arabia and is only engaged in providing real estate to customers on finance lease as a result, the operations of the Company have been considered as one segment.

5 REVENUES

	2017	*2016*
	SR	*SR*
Income from finance leases	**13,842,510**	6,946,590
Contract fee income	**363,902**	364,720
Income from purchase and agency agreement	**148,777**	154,281
	14,355,189	7,465,591

6 SELLING AND MARKETING EXPENSES

	2017	*2016*
	SR	*SR*
Salaries and related cost	**1,301,303**	1,807,007
Rent	**141,667**	227,152
Other	**416,446**	562,179
	1,859,416	2,596,338

7 GENERAL AND ADMINISTRATIVE EXPENSES

	2017	*2016*
	SR	*SR*
Salaries and related cost	**6,103,161**	7,791,674
Depreciation (note 9)	**1,644,976**	1,630,607
Professional charges	**631,002**	651,164
Expenses recharged (note 17)	**365,977**	685,798
Others	**749,633**	359,785
	9,494,749	11,119,028

8 ZAKAT

The principal elements of the zakat base are as follows:

	For the year ended 31 December 2017 SR	*For the year ended 31 December 2016 SR (Restated)*	*For the period from 28 October 2014 to 31 December 2015 SR*
Non-current assets	**122,846,747**	75,225,639	46,301,788
Non-current liabilities	**3,595,176**	4,951,061	5,013,043
Opening shareholders' equity	**175,103,430**	180,374,075	193,973,121
Income / (Loss) for the year	**4,153,533**	(3,671,667)	(8,573,811)

Some of these amounts have been adjusted in arriving at the zakat charge for the year.

During the year ended 31 December 2017, an amount of SR 0.95 million has been recorded as zakat charge (31 December 2016: SR 1.9 million – restated – see note 21) and an amount of SR 2.4 million (31 December 2016: SR 3.0 million) has been paid to the General Authority of Zakat and Tax (GAZT) based on zakat declarations.

Status of zakat assessments
The Company has submitted zakat declarations for the period from 20 June 2011 to 31 December 2011 and for the years ended 31 December 2012 to 31 December 2016 to GAZT, which are under review.

9 PROPERTY AND EQUIPMENT

	Furniture fixtures and office equipment SR	*Computer equipment SR*	*Capital work in progress SR*	***Total 2017 SR***	*Total 2016 SR*	*Total 2015 SR*
Cost:						
At the beginning of the year/period	1,010,544	4,561,836	-	**5,572,380**	5,573,037	4,503,677
Additions during the year/period	16,948	14,352	38,850	**70,150**	40,949	1,069,360
Disposal during the year/period	(5,430)	(5,875)	-	**(11,305)**	(41,606)	-
At the end of the year	**1,022,062**	**4,570,313**	**38,850**	**5,631,225**	5,572,380	5,573,037
Accumulated depreciation:						
At the beginning of the year/period	751,185	2,939,763	-	**3,690,948**	2,073,169	583,001
Charge for the year/period (note 7)	129,600	1,515,376	-	**1,644,976**	1,630,607	1,490,168
Disposals during the year/period	(5,430)	(5,870)	-	**(11,300)**	(12,828)	-
At the end of the year/period	**875,355**	**4,449,269**	-	**5,324,624**	3,690,948	2,073,169
Net book value:						
At 31 December 2017	**146,707**	**121,044**	**38,850**	**306,601**		3,499,868
At 31 December 2016	259,359	1,622,073	-		1,881,432	

10 NET INVESTMENT IN FINANCE LEASE

	31 December 2017 SR	*31 December 2016 SR*	*31 December 2015 SR*
Gross investment in finance lease	**209,846,612**	126,317,591	72,793,203
Less: unearned finance income	**(66,599,853)**	(41,903,003)	(21,185,916)
	143,246,759	84,414,588	51,607,287
Less: allowance for doubtful debts (note ‘a’)	**(2,348,577)**	(2,627,518)	(1,388,750)
Net investment in finance lease	**140,898,182**	81,787,070	50,218,537

2017	***Years***	***Gross investment SR***	***Unearned finance income SR***	***Allowance for doubtful debts SR***	***Net Investment SR***
Current portion		38,468,010	(16,149,538)	(2,348,577)	**19,969,895**
Non-current portion	2019	35,591,987	(13,431,168)	-	**22,160,819**
	2020	32,012,299	(10,709,730)	-	**21,302,569**
	2021	26,268,763	(8,289,386)	-	**17,979,377**
	2022	22,259,853	(6,170,765)	-	**16,089,088**
	2023 and onwards	55,245,700	(11,849,266)	-	**43,396,434**
Non-current portion		171,378,602	(50,450,315)	-	**120,928,287**
Total		**209,846,612**	**(66,599,853)**	**(2,348,577)**	**140,898,182**

2016	*Years*	*Gross investment SR*	*Unearned finance income SR*	*Allowance for doubtful debts SR*	*Net Investment SR*
Current portion		21,531,503	(9,941,673)	(2,627,518)	8,962,312
Non-current portion	2018	19,989,650	(8,128,425)	-	11,861,225
	2019	19,415,322	(6,604,291)	-	12,811,031
	2020	16,789,307	(5,065,715)	-	11,723,592
	2021	13,287,895	(3,782,221)	-	9,505,674
	2022 and onwards	35,303,914	(8,380,678)	-	26,923,236
Non-current portion		104,786,088	(31,961,330)	-	72,824,758
Total		126,317,591	(41,903,003)	(2,627,518)	81,787,070

10 NET INVESTMENT IN FINANCE LEASE (continued)

2015	*Years*	*Gross investment* *SR*	*Unearned finance income* *SR*	*Allowance for doubtful debts* *SR*	*Net Investment* *SR*
Current portion		15,359,188	(6,056,551)	(1,388,750)	7,913,887
Non-current portion	2017	12,996,750	(4,780,164)	-	8,216,586
	2018	11,966,507	(3,769,579)	-	8,196,928
	2019	11,538,372	(2,716,262)	-	8,822,110
	2020	9,004,411	(1,670,163)	-	7,334,248
	2021 and onwards	11,927,975	(2,193,197)	-	9,734,778
Non-current portion		57,434,015	(15,129,365)	-	42,304,650
Total		72,793,203	(21,185,916)	(1,388,750)	50,218,537

a) The movement in allowance for doubtful debts is given below:

	For the year ended 31 December 2017 SR	*For the year ended 31 December 2016 SR*	*For the period from 28 October 2014 to 31 December 2015 SR*
Transferred from Abdul Latif Jameel United Real Estate Instalment Company Limited (a Limited Liability Company)	**-**	-	15,137
At 1 January	**2,627,518**	1,388,750	-
Provided during the year/period	**1,106,255**	1,010,964	1,373,613
Transferred from other payables	**-**	227,804	-
Reversals for the year/period	**(1,385,196)**	-	-
At 31 December	**2,348,577**	2,627,518	1,388,750

b) The ageing of gross finance lease receivables, which are past due and considered impaired by the management, is as follows:

	31 December 2017 SR	*31 December 2016 SR*	*31 December 2015 SR*
1 – 3 months	**1,051,130**	202,337	85,413
4 – 6 months	**255,190**	50,725	49,875
7 – 12 months	**64,349**	99,750	99,750
Over 12 months	**-**	332,131	132,631
At 31 December	**1,370,669**	684,943	367,669

The not yet due portion of above overdue finance lease receivables as at 31 December 2017 amounts to SR 36,198,369 (31 December 2016: SR 5,518,890; 31 December 2015: SR 3,482,845).

10 NET INVESTMENT IN FINANCE LEASE (continued)

The Company in ordinary course of its business, holds collateral in respect of the finance lease receivables (being the title of properties leased out) in order to mitigate the credit risk associated with them. These collaterals (i.e. real estate) are not readily convertible into cash and are accepted by the Company with intent to dispose off in case of customer default.

11 INVESTMENT CLASSIFIED AS AVAILABLE-FOR-SALE

On 14 December 2017, the Company subscribed 2.38% shareholding in Saudi Company for Registration of Financial Leasing Contracts ("Registration Company"), registered in the Kingdom of Saudi Arabia. The Registration Company has been formed with other finance and leasing Companies registered in the Kingdom of Saudi Arabia for registration of contracts relating to financial leases and amendments and registration and transfer of title deeds of the assets under the finance leases arrangements.

12 PREPAYMENTS AND OTHER RECEIVABLES

	31 December 2017 SR	*31 December 2016 SR*	*31 December 2015 SR*
Prepaid expenses	**293,889**	369,753	336,109
Employees' receivables – current portion	**554,762**	917,031	892,363
Other receivables	**731,473**	371,632	483,351
	1,580,124	1,658,416	1,711,823

13 CASH AND BANK BALANCES

	31 December 2017 SR	*31 December 2016 SR*	*31 December 2015 SR*
Cash and cash equivalents	**49,831,622**	103,667,387	138,513,302
Murabaha deposits (original maturity of more than 3 months)	**-**	3,762,139	-
	49,831,622	107,429,526	138,513,302

During the year, the Company earned SR 873,947 (2016: SR 2,895,285) on these murabaha deposits at the rate of return ranging from 1.1% to 3.35% (2016: 1.00% to 3.55% and 2015: 0.35% to 2.65%).

At 31 December 2017, cash and bank balances include murabaha deposits of SR 2.6 million, having original maturity of less than three months (2016: SR 3.7 million, having original maturity of more than three months; 2015: SR 3.5 million, having original maturity of less than three months) representing amounts set aside in respect of employee benefits liabilities.

14 STATUTORY RESERVE

As per the requirements of the regulations for Companies, the Company has established a statutory reserve by the appropriation of at least 10% of net income (after deducting any brought forward accumulated losses). The shareholders may resolve to discontinue such transfer when the reserve equals 30% of the share capital. This reserve is not available for dividend distribution.

Until last year, Company's By-laws required such transfer until it reached 50% of the share capital, however, it has been amended to 30% during the year to align with the requirements of the regulations for Companies.

15 EMPLOYEE BENEFITS LIABILITIES

The main financial assumptions used to calculate the indicative defined unfunded benefit plans liabilities are as follows:

	2017	2016	2015
Discount rate	**4.5%**	6.30%	6.30%
Expected rate of salary increase	**2.5%**	5.50%	5.50%

The amounts recognized in the statement of comprehensive income in respect of these benefits are as follows:

	31 December 2017 SR	*31 December 2016 SR*
Current service cost (notes 15.1 and 15.2)	**317,988**	356,000
Interest cost (notes 15.1 and 15.2)	**178,000**	203,000
	495,988	559,000

The present value of total employee benefits liabilities is as follows:

	31 December 2017 SR	*31 December 2016 SR*	*31 December 2015 SR*
End-of-service benefits (note 15.1)	**1,229,954**	1,752,012	1,734,993
Ex-gratia benefits (note 15.2)	**1,096,562**	1,728,520	1,614,520
	2,326,516	3,480,532	3,349,513

15 EMPLOYEE BENEFITS LIABILITIES (continued)

15.1 The movement in the present value of the end-of-service benefits is as follows:

	For the year edned 31 December 2017 SR	*For the year ended 31 December 2016 SR*	*For the period from 28 October 2014 to 31 December 2015 SR*
Transferred from Abdul Latif Jameel United Real Estate Instalment Company Limited (a Limited Liability Company) (note 1 (b))	**-**	-	1,355,687
At the beginning of the year/period	**1,752,012**	1,734,993	-
Current service cost	**173,988**	198,000	196,352
Interest cost	**89,000**	105,000	104,000
Adjustment for actuarial gains	**(209,000)**	(168,000)	(92,000)
Benefits paid	**(613,390)**	(10,857)	(7,510)
Transferred during the year/period – net (note 17)	**37,344**	(107,124)	178,464
At 31 December	**1,229,954**	1,752,012	1,734,993

15.2 The movement in the present value of the ex-gratia benefits is as follows:

	For the year edned 31 December 2017 SR	*For the year ended 31 December 2016 SR*	*For the period from 28 October 2014 to 31 December 2015 SR*
Transferred from Abdul Latif Jameel United Real Estate Instalment Company Limited (a Limited Liability Company) (note 1 (b))	**-**	-	1,327,000
At beginning of the year /period	**1,728,520**	1,614,520	-
Current service cost	**144,000**	158,000	156,437
Interest cost	**89,000**	98,000	100,000
Adjustment for actuarial gains	**(312,000)**	(142,000)	(131,000)
Benefits paid	**(552,958)**	-	-
Transferred during the year/period – net (note 17)	**-**	-	162,083
At 31 December	**1,096,562**	1,728,520	1,614,520

16 ACCOUNTS PAYABLE, ACCRUED AND OTHER LIABILITIES

	31 December 2017 SR	*31 December 2016 SR (Restated)*	*31 December 2015 SR*
Accrued expenses	**1,849,306**	2,351,174	3,335,494
Advances from customers	**2,831,430**	2,840,374	8,866,069
Zakat and other payable (note 8 and 21)	**4,642,096**	5,498,025	7,811,850
Payable under purchase and agency agreement (note 20b)	-	557,433	597,754
Present value of net servicing liability – current portion (note 20 (c)(ii))	**308,173**	313,258	325,894
Provision for expected defaults and discounts under purchase and agency agreement	**2,232,307**	1,544,047	828,996
	11,863,312	13,104,311	21,766,057

17 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent associated companies, 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.

i) Following are the details of related party transactions entered during the year ended 31 December:

Related party	**Nature of transaction**	***For the year ended 31 December 2017 SR***	*For the year ended 31 December 2016 SR*
Ultimate Parent	Collections from Company's customers	**227,382**	410,155
Affiliates	Purchases	**258,912**	692,234
	Collections from Company's customers	**292,487**	178,685
	Expenses recharged (note 7)	**365,977**	685,798
	Employee benefits liabilities transferred - net (note 15)	**37,344**	107,124
	Reimbursement of medical insurance expenses	**345,496**	479,765
	Charges for customer evaluations prior to lease	**18,580**	25,050

17 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

ii) Due from related parties comprise the following:

	31 December 2017 SR	*31 December 2016 SR*	*31 December 2015 SR*
Abdul Latif Jameel Retail Company Limited	**40,608**	-	-
Abdul Latif Jameel United Finance	**20,722**	1,574	1,519
United Instalment Sales Company Limited ("Ultimate Parent")	**16,451**	5,154	67,423
Abdul Latif Jameel Import and Distribution Company Limited	**7,465**	10,444	23,570
Abdul Latif Jameel Lands Company Limited	**6,190**	15,502	1,183
Abdul Latif Jameel Bodywork & Paint Company Limited	**1,840**	-	-
Abdul Latif Jameel Technology Products Company Limited	**-**	22,512	3,878
	93,276	55,186	97,573

iii) Due to related parties comprise the following:

	31 December 2017 SR	*31 December 2016 SR*	*31 December 2015 SR*
Abdul Latif Jameel Company Limited	**26,000**	25,000	2,660
Abdul Latif Jameel Technology Products Company Limited	**1,837**	-	-
Abdul Latif Jameel Company for Information and Services Limited	**1,500**	4,160	1,630
Abdul Latif Jameel Retail Company Limited	**-**	123,223	137,652
Abdul Latif Jameel Commercial Development Company Limited	**-**	9,467	12,340
Abdul Latif Jameel Bodywork & Paint Company Limited	**-**	9,538	-
Other	**2,614**	889	916
	31,951	172,277	155,198

17 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

iv) The total amount of compensation paid to key management personnel during the year is as follows:

	31 December 2017 SR	*31 December 2016 SR*
Remuneration	**1,396,964**	1,936,326
Short-term employees benefits	**1,780,000**	2,705,000
Employees benefits liabilities	**129,514**	147,708
	3,306,478	4,789,034

The Company's Board of Directors includes the Board and other Board related committees (Risk Committee and Audit Committee).

18 EARNINGS / (LOSS) PER SHARE

Basic earnings / (loss) per share amounts are calculated by dividing the net income / (loss) for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year. The calculation of diluted earnings per share is not applicable to the Company.

The basic and diluted earnings per share is calculated as follows:

	2017 SR	*2016 SR (Restated)*
Net income / (loss) for the year	**4,153,533**	(3,671,667)
Weighted average number of ordinary shares (note 1(a))	**20,000,000**	20,000,000
Basic and diluted income / (loss) per share (expressed in SR per share)	**0.21**	(0.18)

19 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company is exposed to interest rate risk, liquidity risk, credit risk and currency risk. The Company's senior management oversees the management of these risks. The Company's senior management is supported by the Group's Treasury Department that advises on the financial risks and the appropriate financial risk governance framework. The Treasury Department provides assurance to the senior management that the financial risk activities are governed by appropriate policies and procedures and that the financial risks are identified, measured and managed in accordance with the policies and risk objectives. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarized below.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk and commodity risk.

19 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. Before entering into purchase and agency arrangement with bank, the Company is exposed to interest rate fair value risk on its financial assets to be sold. The Company monitors the market interest rate movements and negotiates the terms of the agreement with bank and, if appropriate, the management decides to sell the receivables to the banks. The Company had realized gains on sale of these financial assets.

The Company does not have floating interest bearing short-term deposits. Accordingly, the Company is not exposed to any significant interest rate risk.

Interest rate sensitivity of assets, liabilities and off statement of financial position items

The Company manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The table below summarizes the Company's exposure to interest rate risks. Included are the Company's assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates. The Company is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities that mature or re-price in a given period. The Company manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

19 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

Interest rate sensitivity of assets, liabilities and off statement of financial position items (continued)

31 December 2017	***Interest bearing*** ***Within 1 year*** ***SR***	***1 to 5 years*** ***SR***	***Over 5 years*** ***SR***	***Non-interest bearing*** ***SR***	***Total*** ***SR***
Assets					
Property and equipment	-	-	-	306,601	**306,601**
Net investment in finance lease	19,969,895	77,531,853	43,396,434	-	**140,898,182**
Equity investment	-	-	-	892,850	**892,850**
Due from related parties	-	-	-	93,276	**93,276**
Prepayments and other receivables	-	-	-	2,299,133	**2,299,133**
Cash and bank balances	32,624,402	-	-	17,207,220	**49,831,622**
Total assets	**52,594,297**	**77,531,853**	**43,396,434**	**20,799,080**	**194,321,664**
Liabilities					
Employee benefits liabilities	-	-	-	2,326,516	**2,326,516**
Other non-current liability	-	-	-	1,268,660	**1,268,660**
Due to related parties	-	-	-	31,951	**31,951**
Accounts payable, accrued and other liabilities	-	-	-	11,863,312	**11,863,312**
Total liabilities	-	-	-	**15,490,439**	**15,490,439**
Gap	**52,594,297**	**77,531,853**	**43,396,434**	**5,308,641**	**178,831,225**

19 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

Interest rate sensitivity of assets, liabilities and off statement of financial position items (continued)

	Interest bearing			*Non-interest bearing*	
31 December 2016	*Within 1 year*	*1 to 5 years*	*Over 5 years*		*Total*
	SR	*SR*	*SR*	*SR*	*SR*
Assets					
Property and equipment	-	-	-	1,881,432	1,881,432
Net investment in finance lease	8,962,312	45,901,522	26,923,236	-	81,787,070
Due from related parties	-	-	-	55,186	55,186
Prepayments and other receivables	-	-	-	2,177,865	2,177,865
Cash and bank balances	90,762,139	-	-	16,667,387	107,429,526
Total assets	99,724,451	45,901,522	26,923,236	20,781,870	193,331,079
Liabilities					
Employee benefits liabilities	-	-	-	3,480,532	3,480,532
Other non-current liability	-	-	-	1,470,529	1,470,529
Due to related parties	-	-	-	172,277	172,277
Accounts payable, accrued and other liabilities	-	-	-	13,104,311	13,104,311
Total liabilities	-	-	-	18,227,649	18,227,649
Gap	99,724,451	45,901,522	26,923,236	2,554,221	175,103,430

18 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

Interest rate sensitivity of assets, liabilities and off statement of financial position items (continued)

31 December 2015	*Interest bearing*			*Non-interest bearing*	*Total*
	Within 1 year	*1 to 5 years*	*Over 5 years*		
	SR	*SR*	*SR*	*SR*	*SR*
Assets					
Property and equipment	-	-	-	3,499,868	3,499,868
Net investment in finance lease	7,913,887	32,569,872	9,734,778	-	50,218,537
Properties purchased for lease contracts	-	-	-	12,770,000	12,770,000
Due from related parties	-	-	-	97,573	97,573
Prepayments and other receivables	-	-	-	2,209,093	2,209,093
Cash and bank balances	103,533,127	-	-	34,980,175	138,513,302
Total assets	111,447,014	32,569,872	9,734,778	53,556,709	207,308,373
Liabilities					
Employee benefits liabilities	-	-	-	3,349,513	3,349,513
Other non-current liability	-	-	-	1,663,530	1,663,530
Due to related parties	-	-	-	155,198	155,198
Accounts payable, accrued and other liabilities	-	-	-	21,766,057	21,766,057
Total liabilities	-	-	-	26,934,298	26,934,298
Gap	111,447,014	32,569,872	9,734,778	26,622,411	180,374,075

19 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

Currency risk
Currency risk arises from the possibility that changes in foreign exchange rates will affect the value of the financial assets and liabilities denominated in foreign currencies, in case the Company does not hedge its currency exposure by means of hedging instruments. All of the purchases and sales of the Company are made in Saudi Riyals. As the Company did not undertake significant transactions in currencies other than Saudi Riyal, during the period, the Company was not exposed to any significant currency risk.

Other price risk
The Company is not exposed to other price risk such as equity risk and commodity risk as the Company is neither involved in investment in trading securities nor the commodities.

Liquidity risk
Liquidity risk is the risk that the Company will be unable to meet its net funding requirements. This risk is managed through sale of receivables to banks, as disclosed in note 20. Liquidity requirements are monitored on a regular basis and management ensures that sufficient funds are available to meet any commitments as they arise.

The Company's financial liabilities primarily consist of due to related parties, accounts payable and payable to bank under purchase and agency agreement. A significant portion of these financial liabilities are expected to be settled within 12 months from reporting date and the Company expects to have adequate liquid funds to do so.

a) Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Company’s financial liabilities at 31 December 2017 and 2016 based on contractual undiscounted repayment obligations. The contractual maturities of liabilities have been determined based on the remaining period at the reporting date to the contractual maturity date.

19 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

a) Analysis of financial liabilities by remaining contractual maturities (continued)

31 December 2017	***Fixed maturity***					
	Within 3 months SR	***3 to 12 months SR***	***1 to 5 years SR***	***Over 5 years SR***	***No fixed maturity SR***	***Total SR***
Due to related parties	31,951	-	-	-	-	**31,951**
Accounts payable - trade	705,528	-	-	-	-	**705,528**
Employee benefits liabilities	-	-	-	-	2,326,516	**2,326,516**
Total	**737,479**	**-**	**-**	**-**	**2,326,516**	**3,063,995**

31 December 2016	*Fixed maturity*					
	Within 3 months SR	*3 to 12 months SR*	*1 to 5 years SR*	*Over 5 years SR*	*No fixed maturity SR*	*Total SR*
Due to related parties	172,277	-	-	-	-	172,277
Accounts payable - trade	20,148	-	-	-	-	20,148
Payable under purchase and agency agreement	557,433	-	-	-	-	557,433
Employee benefits liabilities	-	-	-	-	3,480,532	3,480,532
Total	749,858	-	-	-	3,480,532	4,230,390

19 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

a) Analysis of financial liabilities by remaining contractual maturities (continued)

	Fixed maturity					
31 December 2015	*Within 3 months SR*	*3 to 12 months SR*	*1 to 5 years SR*	*Over 5 years SR*	*No fixed maturity SR*	*Total SR*
Due to related parties	155,198	-	-	-	-	155,198
Accounts payable - trade	107,898	-	-	-	-	107,898
Payable under purchase and agency agreement	597,754	-	-	-	-	597,754
Employee benefits liabilities	-	-	-	-	3,349,513	3,349,513
Total	860,850	-	-	-	3,349,513	4,210,363

19 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

b) Maturity analysis of assets and liabilities as per management estimation

The table below shows an analysis of assets and liabilities, analyzed according to when they are expected to be recovered or settled.

	Fixed maturity				
31 December 2017	***Within 1 year SR***	***1 to 5 years SR***	***Over 5 years SR***	***No fixed maturity SR***	***Total SR***
Assets					
Property and equipment	-	-	-	306,601	**306,601**
Net investment in finance lease	19,969,895	77,531,853	43,396,434	-	**140,898,182**
Investment classified as available-for-sale	-	-	-	892,850	**892,850**
Due from related parties	-	-	-	93,276	**93,276**
Prepayments and other receivables	1,580,124	719,009	-	-	**2,299,133**
Cash and bank balances	32,624,402	-	-	17,207,220	**49,831,622**
Total assets	**54,174,421**	**78,250,862**	**43,396,434**	**18,499,947**	**194,321,664**
Liabilities					
Employee benefits liabilities	**-**	**-**	**-**	2,326,516	**2,326,516**
Other non-current liability	**-**	**-**	1,268,660	**-**	**1,268,660**
Due to related parties	31,951	-	**-**	**-**	**31,951**
Accounts payable, accrued and other liabilities	9,114,969	207,863	2,540,480	**-**	**11,863,312**
Total liabilities	**9,146,920**	**207,863**	**3,809,140**	**2,326,516**	**15,490,439**

19 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

b) Maturity analysis of assets and liabilities as per management estimation (continued)

	Fixed maturity				
31 December 2016	*Within 1 year SR*	*1 to 5 years SR*	*Over 5 years SR*	*No fixed maturity SR*	*Total SR*
Assets					
Property and equipment	-	-	-	1,881,432	1,881,432
Net investment in finance lease	8,962,312	45,901,522	26,923,236	-	81,787,070
Due from a related party	-	-	-	55,186	55,186
Prepayments and other receivables	1,658,416	519,449	-	-	2,177,865
Cash and bank balances	90,762,139	-	-	16,667,387	107,429,526
Total assets	101,382,867	46,420,971	26,923,236	18,604,005	193,331,079
Liabilities					
Employee benefits liabilities	-	-	-	3,480,532	3,480,532
Other non-current liability	-	-	1,470,529	-	1,470,529
Due to related parties	172,277	-	-	-	172,277
Accounts payable, accrued and other liabilities	6,526,462	220,544	1,857,305	4,500,000	13,104,311
Total liabilities	6,698,739	220,544	3,327,834	7,980,532	18,227,649

19 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

b) Maturity analysis of assets and liabilities as per management estimation (continued)

	Fixed maturity				
31 December 2015	*Within 1 year SR*	*1 to 5 years SR*	*Over 5 years SR*	*No fixed maturity SR*	*Total SR*
Assets					
Property and equipment	-	-	-	3,499,868	3,499,868
Net investment in finance lease	7,913,887	32,569,872	9,734,778	-	50,218,537
Properties purchased for lease contracts	12,770,000	-	-	-	12,770,000
Due from a related party	97,573	-	-	-	97,573
Prepayments and other receivables	1,711,823	497,270	-	-	2,209,093
Cash and bank balances	103,533,127	-	-	34,980,175	138,513,302
Total assets	126,026,410	33,067,142	9,734,778	38,480,043	207,308,373
Liabilities					
Employee benefits liabilities	-	-	-	3,349,513	3,349,513
Other non-current liability	-	-	1,663,530	-	1,663,530
Due to related parties	155,198	-	-	-	155,198
Accounts payable, accrued and other liabilities	17,006,243	356,420	1,154,890	3,248,504	21,766,057
Total liabilities	17,161,441	356,420	2,818,420	6,598,017	26,934,298

19 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk and concentration of credit risk

Credit risk arises from the possibility of asset impairment occurring because counter parties cannot meet their obligations in transactions involving financial instruments. The Company is exposed to credit risk on cash and bank balances, net investment in finance lease, employees' receivables, due from related parties and other receivables. The Company has established procedures to manage credit exposure including credit approvals, credit limits, collateral and guarantee requirements. These procedures are based on the Company's internal guidelines.

Concentration of credit risk indicates the relative sensitivity of the Company's performance to developments affecting a particular segment of customers.

The Company manages concentration of credit risk exposure through sale of future net investment in finance lease receivables to banks through purchase and agency agreement. However, the Company mitigates its credit risk through evaluation of credit worthiness by obtaining promissory notes and by retaining the tile of the property leased out. For certain types of customers, the maximum credit limits are defined. An allowance for doubtful finance lease is maintained at a level which, in the judgment of management, is adequate to provide for impairment losses on delinquent receivables.

All finance leases are secured mainly through promissory notes and yield a fixed rate of commission for each contract. The title of the properties sold under finance lease agreements is held in the name of the Company as collateral to be repossessed, in case of default by the customer.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Company's maximum exposure to credit risk without taking account of the value of any collateral obtained.

c) Collateral held

The Company, in the ordinary course of its leasing activities, holds collaterals as security to mitigate credit risk in the finance lease. Fair value of the collateral held by the Company against finance leases by each category are as follows:

	31 December 2017 SR	*31 December 2016 SR*
Neither past due nor impaired	**226,525,100**	102,996,235
Past due but not impaired	**-**	-
Impaired	**45,367,177**	7,799,348
	271,892,277	110,795,583

Capital Management

The Company's capital management objectives are to ensure the Company's ability to continue as a going concern and to provide adequate return to its shareholders through the optimization of the capital structure. The Company manages the capital structure and makes adjustments in the light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. No changes were made in objectives, policies or processes for managing capital during the year ended 31 December 2017 and 31 December 2016 and for the period ended 31 December 2015.

19 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital Management (continued)

The Company monitors aggregate amount of financing offered by the Company on the basis of the regulatory requirements of SAMA that requires Finance Companies engaged in real estate finance, to maintain aggregate financing to capital ratio of five times.

	31 December 2017	*31 December 2016 (Restated)*	*31 December 2015*
Aggregate financing to capital ratio	**0.79 times**	0.47 times	0.28 times
(Net investment in finance lease divided by total shareholders' equity)			

As at 31 December 2017, the Company's accumulated losses are 11.07% (31 December 2016 (Restated): 12.67% and 31 December 2015: 9.88%) of the paid up capital. As per the Implementing Regulation of the Finance Companies Control Law, a finance company must promptly notify SAMA in cases accumulated losses exceed 15% of the paid up capital.

20 PURCHASE AND AGENCY AGREEMENT

The Company has entered into a purchase and agency agreement (the "agreement") with a local bank in respect of certain finance lease receivables (referred as 'receivables')

Under the terms of the agreement, the Company first sells the eligible receivables to the bank net of insurance premiums 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 year ended 31 December 2017, the Company sold SR Nil (31 December 2016: SR Nil) (for the period from 28 October 2014 to 31 December 2015: SR 47.8 million) of its net receivables and the total amounts received from the bank in respect of such sale was SR Nil (31 December 2016: SR Nil) (for the period from 28 October 2014 to 31 December 2015: SR 58 million). The Company sold the receivables on 28 October 2014, which is prior to obtaining license from SAMA to operate as a real estate financing Company under new finance regulations.

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). As of 31 December 2017, the total settlement of net receivables to be made to the bank as an agent under the agreement amounts to SR 48.8 million (31 December 2016: SR 56.6 million and 31 December 2015: SR 64.6 million). The maturity analysis of derecognized receivables is as follows:

Under purchase and agency agreement	*Upto 1 year SR*	*2 – 3 years SR*	*after 3 years SR*	***Total SR***
31 December 2017	**7,569,472**	**14,484,952**	**26,757,151**	**48,811,575**
31 December 2016	7,766,247	14,940,328	33,871,247	56,577,822
31 December 2015	8,068,804	15,335,719	41,242,103	64,646,626

20 PURCHASE AND AGENCY AGREEMENT (continued)

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 monthly amount based on the cash flow statement. Any excess collections over and above the stipulated amount and after retaining the amount for the next month's repayment, are transferred monthly by the Company to the bank. The amount of the next month's repayment is recognized as a liability and included in 'accounts payable, accrued and other liabilities' as payable under purchase and agency agreement (note 16).

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 on 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 year ended 31 December 2017, the Company made a net gain of SR Nil (31 December 2016: SR Nil) (for the period from 28 October 2014 to 31 December 2015 SR 7.9 million) on derecognition of receivables sold to the bank under the agreement, which is calculated as follows:

	31 December 2017 SR	*31 December 2016 SR*	*For the period from 28 October 2014 to 31 December 2015 SR*
Gross amount of receivables	-	-	81,977,931
Less: deferred finance income	-	-	34,083,572
Add: present value of net servicing liability (see note ii)	-	-	2,209,058
Less: cash received from the bank	-	-	58,000,000
Net gain on derecognition of receivables	-	-	7,896,583

d) 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 agreement, calculated as follows:

	31 December 2017 SR	*31 December 2016 SR*	*31 December 2015 SR*
Present value of deferred consideration receivable	**3,325,190**	3,763,949	4,199,143
Less: provision against expected defaults and discounts in respect of sold receivables	**(3,325,190)**	(3,763,949)	(4,199,143)
Net deferred consideration receivable	-	-	-

As on 31 December 2017, for the expired period of the agreed cash flows under the purchase and agency agreement, the Company had made provision for expected defaults and early termination of SR 2,232,307 (31 December 2016: SR 1,544,047) (31 December 2015: SR 828,996) (note 16).

20 PURCHASE AND AGENCY AGREEMENT (continued)

e) 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 liabilities and related provisions. The net amount is classified as a net servicing asset or a net servicing liability on the statement of financial position. As of 31 December 2017 and 2016, this has been presented as follows:

	31 December 2017 SR	*31 December 2016 SR*	*31 December 2015 SR*
Present value of net servicing liability	**1,576,833**	1,783,787	1,989,424
Less: current portion (note 16)	**(308,173)**	(313,258)	(325,894)
Non-current portion (disclosed as non-current liability)	**1,268,660**	1,470,529	1,663,530

The present value of net deferred consideration receivable and the present value of net servicing liability is calculated by using appropriate discount rate (note 2.3).

21 RESTATEMENT OF PRIOR YEARS FIGURES

As set out in notes 2.1 and 2.4.2, the Company has changed its accounting policy to recognise zakat charge for the year to retained earnings instead of statement of comprehensive income. The change in the accounting policy has resulted in the increase in the net income for the year ended 31 December 2016 by SR 4.0 million, whereas the zakat charge of SR 4.0 million has been recorded under 'retained earnings' in the statement of changes in shareholders' equity. Also, during the year, the Company has reassessed the estimate relating to the zakat charge for the year ended 31 December 2016 and has determined that zakat charge was erroneously overstated by SR 2.1 million. In order to reflect the appropriate amount of zakat provision, management has restated 2016 numbers by reducing the zakat charge for the year, with corresponding decrease in the 'zakat and other payable' as at 31 December 2016 (see note 8 and 16). This restatement has resulted in an increase in the 'retained earnings' of the Company, as at 31 December 2016 by the same amount. The net impact of above changes has resulted in a charge of SR 1.9 million to the 'retained earnings'.

22 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial assets consist of cash and bank balances, net investment in finance lease, investment classified as available-for-sale, employees' receivables, net deferred consideration receivable, due from related parties and other receivables. Its financial liabilities consist of due to related parties, accounts payable and payable under purchase and agency agreement.

The fair values of the financial instruments are not materially different from their carrying amounts except for the finance lease receivables.

The Company's management determines the policies and procedures for both recurring fair value measurement and for non-recurring measurement.

23. COMPARATIVE INFORMATION

Certain prior year figures in these financial statements have been reclassified to conform with the presentation in the current year.

24 BOARD OF DIRECTORS' APPROVAL

These financial statements were approved by the Board of Directors on 4 March 2018 (corresponding to 16 Jumada II 1439H).