

**Saudi Finance Company
(A Saudi Closed Joint Stock Company)
Financial Statements and
Independent Auditors' Report
For the year ended 31 December 2017**

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<u>Table of Contents</u>	<u>Page</u>
Independent Auditors' report	1-2
Statement of Financial Position as at 31 December 2017	3
Statement of Profit or Loss for the year ended 31 December 2017	4
Statement of Other Comprehensive Income for the year ended 31 December 2017	5
Statement of Changes in Shareholders' Equity for the year ended 31 December 2017	6
Statement of Cash Flows for the year ended 31 December 2017	7
Notes to the Financial Statements for the year ended 31 December 2017	8-32

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

Report on the audit of the financial statements

Our opinion

We have audited the financial statements of Saudi Finance Company (the "Company"), which comprise the statement of financial position as at December 31, 2017, and the statement of profit and loss, statement of other 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 32.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position 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 ("IFRS") as modified by Saudi Arabian Monetary Authority ("SAMA") for zakat and income tax.

Basis for opinion

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

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

Other Matter

The financial statements of the Company for the year ended 31 December, 2016 were audited by another auditor who expressed an unqualified opinion on those statements on 28 February, 2017.

Independence

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS as modified by SAMA for zakat and income tax and the applicable requirements of the Regulations for Companies and the Company's By-Laws, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud and error.

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

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

Auditors' responsibilities for the audit of the financial statements

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

Al Riyadh
Tel: +966 11 206 5333
Fax: +966 11 206 5444
P.O. Box 66668 Al Riyadh 11557

Jeddah
Tel: +966 12 652 5333
Fax: +966 12 652 2894
P.O. Box 15651 Jeddah 21454

Al Khobar
Tel: +966 13 893 3378
Fax: +966 13 893 3349
P.O. Box 4636 Al Khobar 31952

Buraydah
Tel: +966 11 206 5333
Fax: +966 11 206 5444
P.O. Box 66668 Al Riyadh 11557

Madinah
Tel: +966 12 652 5333
Fax: +966 12 652 2894
P.O. Box 15651 Jeddah 21454

info.sa@pkf.com

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

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

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

- Identify and assess the risk 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 by the management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists, related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that the material uncertainty exists we are required to draw attention in our auditor's report to the related disclosures in 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 auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern; and
- 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 management and 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.

Report on other legal and regulatory requirements

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

**PKF Al-Bassam & Co.
Allied Accountants**



**Ibrahim A. Al-Bassam
Certified Public Accountant
Registration No. 337**



**4 March 2018
16 Jumada Al-Thani 1439H**

Al Riyadh
Tel: +966 11 206 5333
Fax: +966 11 206 5444
P.O. Box 69658 Al Riyadh 11557

Jeddah
Tel: +966 12 652 5333
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Info: sa@pkf.com

Saudi Finance Company
(A Saudi Closed Joint Stock Company)
STATEMENT OF FINANCIAL POSITION
As at 31 DECEMBER, 2017
(All amounts in Saudi Riyals unless otherwise stated)

	Note	2017	2016 (Restated)*
ASSETS			
Cash and cash equivalents	4	12,374,236	20,258,398
Prepayments and other receivables	5	2,698,982	3,869,598
Due from related parties	6	-	427,752
Net investment in Islamic financing	7	360,572,820	364,093,690
Investment - available for sale	8	892,850	-
Assets repossessed held for sale	9	6,087,234	6,087,234
Restricted cash deposit	10	3,525,545	5,484,409
Property and equipment	11	5,676,021	5,869,566
Intangible assets	12	4,396,345	2,324,078
TOTAL ASSETS		396,224,033	408,414,725
EQUITY AND LIABILITIES			
EQUITY			
Share capital	13	100,000,000	100,000,000
Statutory reserve	14	4,334,611	3,301,038
Retained earnings		32,870,112	27,776,500
Actuarial loss on post-employment benefits	15	(43,926)	-
TOTAL EQUITY		137,160,797	131,077,538
LIABILITIES			
Trade payables	16	12,971,500	658,175
Other payables and accruals	17	7,510,713	5,751,087
Due to related parties	6	20,000	95,335
Provision for zakat	18	20,767,786	16,839,346
Shar'i'a alternatives for financial derivative instruments	19	131,122	314,365
Financial facilities	20	214,895,892	251,399,696
Employees' end of service benefits	15	2,766,223	2,279,183
TOTAL LIABILITIES		259,063,236	277,337,187
TOTAL EQUITY AND LIABILITIES		396,224,033	408,414,725
Contingencies and commitments			
	21		

The annexed notes 1 to 32 form an integral part of these financial statements

Saudi Finance Company
(A Saudi Closed Joint Stock Company)
STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER, 2017
(All amounts in Saudi Riyals unless otherwise stated)

	Note	2017	2016 (Restated)*
INCOME FROM ISLAMIC FINANCING	22	60,763,981	68,898,684
OPERATING EXPENSES			
Finance cost	23	(8,112,124)	(10,127,527)
Impairment on Islamic financing	24	(9,620,000)	(9,080,000)
Selling and marketing expenses	25	(6,945,281)	(6,817,184)
General and administrative expenses	26	(30,643,803)	(29,588,691)
Unrealized gain / (loss) on shari'a alternatives for financial derivative instruments		<u>183,243</u>	<u>(332,735)</u>
OPERATING INCOME		5,626,016	12,952,547
Other Income	27	4,709,712	3,666,394
PROFIT FOR THE YEAR		<u>10,335,728</u>	<u>16,618,941</u>
Earnings per share - basic and diluted	28	<u>1.03</u>	<u>1.66</u>

The annexed notes 1 to 32 form an integral part of these financial statements.

Saudi Finance Company
(A Saudi Closed Joint Stock Company)
STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER, 2017
(All amounts in Saudi Riyals unless otherwise stated)

	Note	2017	2016 (Restated)*
Profit for the year		10,335,728	16,618,941
OTHER COMPREHENSIVE LOSS			
<i>Items that will not be reclassified to profit and loss</i>			
Actuarial loss on post-employment benefits	15	(43,926)	-
Total other comprehensive loss for the year		(43,926)	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		10,291,802	16,618,941

The annexed notes 1 to 32 form an integral part of these financial statements.

Saudi Finance Company
(A Saudi Closed Joint Stock Company)
STATEMENT OF CHANGES IN EQUITY
As at 31 DECEMBER, 2017
(All amounts in Saudi Riyals unless otherwise stated)

	Share capital	Statutory reserve	Retained Earnings	Actuarial loss on post-employment benefits	Total equity
Balance as at 1 January, 2016	100,000,000	1,639,144	17,428,314	-	119,067,458
Profit for the year - restated*	-	-	16,618,941	-	16,618,941
Transfer to statutory reserve - restated*	-	1,661,894	(1,661,894)	-	-
Zakat charge for the year - restated*	-	-	(4,608,861)	-	(4,608,861)
Balance as at 31 December, 2016 - restated*	100,000,000	3,301,038	27,776,500	-	131,077,538
Profit for the year	-	-	10,335,728	-	10,335,728
Other comprehensive loss	-	-	-	(43,926)	(43,926)
Transfer to statutory reserve	-	1,033,573	(1,033,573)	-	-
Zakat charge for the year	-	-	(4,208,543)	-	(4,208,543)
Balance as at 31 December, 2017	100,000,000	4,334,611	32,870,112	(43,926)	137,160,797

The annexed notes 1 to 32 form an integral part of these financial statements.

Saudi Finance Company
(A Saudi Closed Joint Stock Company)
STATEMENT OF CASH FLOWS
As at 31 DECEMBER, 2017
(All amounts in Saudi Riyals unless otherwise stated)

	Note	2017	2016 (Restated)*
CASH FLOWS FROM OPERATING ACTIVITIES			
PROFIT FOR THE YEAR		10,335,728	16,618,941
Adjustments for:			
Depreciation	26	2,115,570	2,035,404
Amortization	26	1,330,423	1,170,313
Impairment on Islamic financing	24	9,620,000	9,080,000
loss on disposal of property and equipment		(39,352)	(126,046)
Unrealized gain / (loss) on Shar'i'a alternatives for financial derivative instruments		(183,243)	332,735
Provision for employees' terminal benefits	15.2	916,251	464,497
		13,759,649	12,956,903
(Increase) / decrease in operating assets			
Prepayments and other receivables		1,170,616	1,842,811
Due from related parties		427,752	-
Net investment in Islamic financing		(6,099,130)	(7,711,689)
Restricted cash deposit		1,958,864	3,474,455
		(2,541,898)	(2,394,423)
Increase / (decrease) in operating liabilities			
Trade payables		12,313,325	(7,318,284)
Other payables and accruals		1,759,626	2,731,934
Due to related parties		(75,335)	(377,109)
Zakat paid	18	(280,102)	(595,361)
Post-employment benefits paid	15.3	(473,137)	(219,021)
Net cash generated from operating activities		34,797,856	21,403,580
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	11	(1,930,378)	(373,203)
Purchase of intangible assets	12	(3,402,690)	(538,961)
Purchase of investment in shares – Available for sale		(892,850)	-
Proceeds from sale of property and equipment		47,705	149,580
Net cash used in investing activities		(6,178,213)	(762,584)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from financial facilities	20	193,000,000	601,254,848
Repayment of financial facilities	20	(229,503,805)	(614,363,576)
Net cash used in financing activities		(36,503,805)	(13,108,728)
Net (decrease) / increase in cash and cash equivalents		(7,884,162)	7,532,268
Cash and cash equivalents at beginning of the year		20,258,398	12,726,130
Cash and cash equivalents at end of the year	4	<u>12,374,236</u>	<u>20,258,398</u>

The annexed notes 1 to 32 form an integral part of these financial statements.

(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
As at 31 DECEMBER, 2017
(All amounts in Saudi Riyals unless otherwise stated)

1 LEGAL STATUS AND OPERATIONS

Saudi Finance Company (formerly known as "Saudi Installment House Company") (the "Company") is a Saudi Closed Joint Stock Company registered in the Kingdom of Saudi Arabia under commercial registration number 1010078374 dated 23 Muharram 1411H (corresponding to 14 August 1990).

1.1 The Company is engaged in leasing, commercial financing, small and medium business financing and retail financing in accordance with the Saudi Arabian Monetary Authority ("SAMA") approval number 351000071328 dated 3 Jumad Thani 1435H and license number 114102 dated 27 Muharrum 1436H.

Pursuant to the Ministry of Commerce and Investment Resolution numbered 291 dated 4 Muharram 1436H (corresponding to 28 October 2014), the Company has been converted from a Limited Liability Company to a Saudi Closed Joint Stock Company and changed its name from "Saudi Installment House Company" to "Saudi Finance Company".

1.2 The Company carries out financing activities through various Shari'a compliant instruments. The activities of the Company are conducted in accordance with Islamic Shari'a, which prohibits usury as determined by the Shari'a Supervisory Board of the Company.

1.3 The Company's Head Office is located at the following address: Saudi Finance Company

Khurais Street, Makkah Road
P.O. Box 18331
Riyadh 11415
Kingdom of Saudi Arabia

1.4 The Company has the following branches:

S. No	Branch	C.R. No.	Date
1	Olaya, Riyadh	1010366245	23 Rabi Thani 1434H
2	Khurais, Riyadh	1010137723	17 Rabi Thani 1416H
3	Buraidah	1131013974	26 Dhul-Hijjah 1417H
4	Dammam	2051026306	24 Rabi Awal 1423H
5	Jeddah	4030242129	23 Rabi Thani 1434H
6	Al-Ahsa	2251056896	16 Jumad Awal 1435H
7	Medina	4650073124	11 Sha'aban 1435H
8	Hail	3350042118	11 Sha'aban 1435H
9	Badlia Riyadh	1010391633	23 Dhul-Hijjah 1434H

2 BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as modified by SAMA for zakat and income tax and the applicable requirements of the Regulations for Companies as issued by SAMA.

2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention except for the measurement at fair value of Shari'a alternatives for financial derivative instruments and investments held as available for sale.

2.3 Functional and presentation currency

These financial statements have been presented in Saudi Riyals (SR) which is the Company's functional and presentation currency. All financial information presented in Saudi Arabian Riyals has been rounded to the nearest Riyal, unless otherwise mentioned.

2.4 Significant accounting estimates and judgments

The preparation of financial statements in conformity with the International Financial Reporting Standards ("IFRS") as modified by SAMA for zakat and income tax which require management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
As at 31 DECEMBER, 2017
(All amounts in Saudi Riyals unless otherwise stated)

In the process of applying the Company's accounting policies, management has made the following estimates and judgments which are significant to the financial statements:

2.4.1 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.

2.4.2 Determination of discount rate for present value calculations

Discount rate represents the current market assessment of the risks specific to the Company, taking into consideration the tenure of the agreement and the individual risks of the underlying assets. The discount rate calculation is based on the specific circumstances of the Company.

2.4.3 Actuarial valuation of employee benefits liabilities

The cost of the end-of-service ("employee benefits") under defined unfunded benefit plan 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, mortality rates and rate of employee turnover. 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.

2.4.4 Impairment of net investment in Islamic financing

An estimate of the collectible amount of Islamic financing receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis by discounting future cash flows. 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. Any difference between the amounts actually collected in future periods and the amounts expected will be recognized in the statement of profit or loss of those periods.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies applied in the preparation of these unconsolidated financial statements are set forth below. These accounting policies have been applied consistently to all the years presented, except as disclosed under note 3.1.

3.1 Change in accounting policy in relation to accounting for zakat and income tax

The Company amended its accounting policy relating to zakat and income tax and have started to charge it directly to retained earnings with a corresponding liability recognized in the statement of financial position. Previously, zakat and income tax were charged to the statement of profit or loss with a corresponding liability recognized in the statement of financial position. The Company has accounted for this change in the accounting policy relating to zakat and income tax retrospectively and the effects of the above change are disclosed in note 31 to the financial statements.

3.2 Amendments in existing standards

The adoption of the following amendments to existing standard mentioned below which had no significant financial impact on the financial statements of the Company on the current period or prior period and is expected to have no significant effect in future periods:

3.2.1 IAS 7 Disclosure Initiative – Amendments to IAS 7

The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods.

3.3 Property and equipment

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

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

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

(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
As at 31 DECEMBER, 2017
(All amounts in Saudi Riyals unless otherwise stated)

Office equipment	4 Years
Furniture and fixtures	7 Years
Owned and leased motor vehicles	4 Years
Leasehold improvements	7 Years

Depreciation on additions is charged from the month the assets are available for use.

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

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

The assets residual values, useful lives and methods are reviewed and adjusted, if appropriate, at each balance sheet date.

Impairment in assets value

At each statement of financial position date, the carrying amounts of tangible assets are reviewed regularly to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the assets or cash-generating unit is reduced to its recoverable amount. Impairment loss is recognized as an expense in the statement of profit or loss immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the assets or cash-generating unit in prior period. The reversal of an impairment loss is recognized in the statement of profit or loss immediately.

3.4 Intangible assets

Intangible assets having definite lives are stated at cost less accumulated amortization and accumulated impairment losses, if any. Amortization is charged as disclosed in note 12 applying the straight-line method over the useful lives 4 years. Amortization is charged from the month in which the asset is available for use. The residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

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

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

3.5 Asset repossessed held for sale

The Company in the ordinary course of its business, acquires certain vehicles and other assets against settlement of Islamic financings. Such assets are considered as assets held for sale and are initially recorded at the lower of the net realizable value of related Islamic financings or the current fair value of the related assets, less any cost to sell.

Subsequent to the initial recognition, these assets owned are periodically revalued and are carried at lower of their carrying values or the related net realizable value. Rental income, realized gain or losses on disposal and unrealized losses on evaluation are credited or charged to the comprehensive income/loss.

3.6 Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.

Financial assets are derecognized when the Company loses control of the contractual rights that comprise the financial assets. Financial liabilities are derecognized when they are extinguished, that is, when the obligation specified in the contract is discharged, cancelled, or expires.

On derecognition of a financial asset or financial liability, the difference between the carrying amount and the consideration received (and receivable) or paid (and payable) is recognized in the statement of profit or loss.

(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
As at 31 DECEMBER, 2017
(All amounts in Saudi Riyals unless otherwise stated)

3.6.1 Financial assets

a) Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, Islamic financing, available-for-sale financial assets, or as Shari'a alternatives for financial derivative instruments at fair value through profit and loss, as appropriate. Management determines the classification of the financial asset at the time of initial recognition.

All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Murabaha receivables

Murabaha is an agreement whereby the Company sells to a customer an asset, which the Company has purchased and acquired based on a promise received from the customer to buy. The selling price comprises the cost plus an agreed profit margin. Gross amounts due under the Murabaha sale contracts include the total of future sale payments on the Murabaha agreement (Murabaha sale contract receivable). The difference between the Murabaha sale contracts receivable and the cost of the sold asset, is recorded as unearned Murabaha profit and for presentation purposes, is deducted from the gross amounts due under the Murabaha sale contracts receivable.

Tawarruq receivables

Tawarruq is an agreement whereby the Company sells to a customer an asset, which the Company has already purchased and received either physically or constructively and subsequently to such sale, the customer arranges to sell the underlying asset and receives the sale proceeds. The selling price comprises the cost plus an agreed profit margin. Gross amounts due under the Tawarruq sale contracts include the total sale payments on the Tawarruq agreement (Tawarruq sale contract receivable). The difference between the Tawarruq sale contracts receivable and the cost of the sold asset, is recorded as unearned Tawarruq profit and for presentation purposes, is deducted from the gross amounts due under the Tawarruq sale contracts receivable.

Ijara receivables

Ijara finance is an agreement wherein gross amounts due under originated Ijara (finance) includes the total of future payments on Ijara finance, plus estimated residual amounts receivable (by an option to purchase the asset at the end of the respective lease term through an independent sale contract). The difference between the Ijara contracts receivable and the cost of the Ijara assets is recorded as unearned Ijara finance income and for presentation purposes, is deducted from the gross amounts due under Ijara finance.

b) Subsequent measurement

Islamic financing assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, Islamic financing assets are measured at amortized cost using the effective profit rate method, less any impairment. Investment held as available for sale are recorded on fair value. Restructured/rescheduled receivables are recorded at revised terms and conditions as approved by the management. Restructuring policies and practices are based on indicators or criteria which, indicate that payment will most likely continue.

Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs. Transaction costs relating to Islamic financing is amortized over the period of financing.

c) Derecognition of financial assets

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

- 1 the contractual right to receive cash flows from the asset has expired; or
 - 2 the contractual right to receive cash flows from the asset has expired; but the Company has assumed an obligation to pay them in full without material delay to a third party under a "pass through" arrangement; or
 - 3 the Company has transferred its contractual right to receive cash flows from the asset and either
 - (a) has transferred substantially all the risks and rewards of the asset; or
 - (b) 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.

d) Impairment of financial assets

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognized in the statement of profit or loss. Impairment is determined as follows:

(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
As at 31 DECEMBER, 2017
(All amounts in Saudi Riyals unless otherwise stated)

- 1 for assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognized in the statement of profit or loss;
- 2 for assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset; and,
- 3 for assets carried at amortized cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective profit rate.

3.6.2 Financial liabilities

a) Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss or other financial liabilities, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of financial facilities, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, financial facilities, financial guarantee contracts, and Shari'a alternatives for financial derivative instruments.

b) Subsequent measurement

The measurement of financial liabilities depends on their classification as financial liabilities at fair value through profit or loss or "amortized cost".

The Company has not designated any financial liability as fair value through profit or loss.

Other financial liabilities (including financial facilities and trade and other payables) are subsequently measured at amortized cost using the effective profit rate method.

Transaction costs relating to long-term financial facilities are being amortized over the period of agreement using the effective profit rate method.

c) 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 profit or loss.

3.6.3 Shari'a alternatives for financial derivative instruments

Shari'a alternatives for financial derivative instruments are initially recognized at fair value on the date on which the Shari'a alternative for derivative contract is entered into and are subsequently re-measured at fair value in the statement of financial position with transaction costs recognized in the statement of income. All Shari'a alternative for financial derivatives instruments are carried at their fair value as assets where the fair value is positive and as liabilities where the fair value is negative. Fair values are obtained by reference to quoted market prices, discounted cash flow models and pricing models as appropriate.

3.7 Fair value management

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- a) In the principal market for the asset or liability; or
 - b) 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.

(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
As at 31 DECEMBER, 2017
(All amounts in Saudi Riyals unless otherwise stated)

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:

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

3.8 Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are set off and the net amount is reported in the financial statements only when the Company has a legally enforceable right to set off and the Company intends to either settle on a net basis, or to realize the assets and to settle the liabilities simultaneously. Income and expense items of such assets and liabilities are also offset and the net amount is reported in the financial statements.

3.9 Regular way contracts

All "regular way" purchases and sales of financial assets are recognized on trade date, i.e. the date on which the asset is delivered to or by the Company.

3.10 Long term financial facilities

Long term financial facilities are initially recognized at cost being the fair value of consideration received together with the associated transaction costs. Subsequently, these are carried at amortized cost using the effective profit rate method.

Transaction costs relating to long term financial facilities are being amortized over the period of agreement using the effective profit rate method.

3.11 Foreign currency transactions

Foreign currency transactions are translated into Saudi Riyals at exchange rates prevailing at the date of transaction and the resulting gain / loss recognized in the statement of profit or loss. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange that are prevailing on the statement of financial position date. Gains and losses on translation are taken to statement of profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

3.12 Provisions for non-financial assets

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and are adjusted to reflect the current best estimates. When the Company expects some or all of a provision to be reimbursed, for example, under a takaful contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

3.13 Proposed dividend and transfer between reserves

Dividends and appropriations to reserves, except appropriations which are required by law, made subsequent to the balance sheet date are considered as non-adjusting events and are recorded in the financial statements in accordance with the requirements of International Accounting Standard (IAS) 10, "Events after the Reporting Period" in the year in which they are approved / transfers are made.

3.14 Revenue recognition

Income from Islamic financing is recognized in the statement of profit or loss using the effective profit method, using the applicable effective profit rate "EPR", on the outstanding balance over the term of the contract.

The calculation of EPR includes transaction costs and fees and commission income received that are an integral part of the EPR. Transaction costs include incremental costs that are directly attributable to the acquisition of the financial assets

Origination fees charged in respect of processing and other services are recognized as income over the period of the financing agreement.

3.15 Cash and cash equivalents

Cash and cash equivalents include cash in hand and at banks.

(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
As at 31 DECEMBER, 2017
(All amounts in Saudi Riyals unless otherwise stated)

3.16 Post-employment benefits

This represents end of service benefits plan.

End-of-service benefits as required by Saudi Arabian Labor Law are required to be provided based on the employees' length of service.

The Company's net obligations in respect of defined unfunded benefit plans (End-of-service-benefits) ("the obligations") is calculated 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 government sukuk at the reporting date that have maturity dates 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.

The defined benefit liability comprises the present value of defined benefit obligation as adjusted for any past service cost not yet recognized and any unrecognized actuarial gains/losses. Currently there are no past service costs. There are also no unrecognized re-measurement gains and losses as the entire re-measurement gains and losses are recognized as income or expense in the statement of other comprehensive income during the year in which they arise.

3.17 General and Administrative expenses and Selling and marketing expenses

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

3.18 Contingent liabilities

The Company receives legal claims through its normal cycle. Management has to make estimates and judgments about the possibility to set aside a provision to meet claims. The end of the legal claims date and the amount to be paid is uncertain. The timing and costs of legal claims depends on the statutory procedures.

3.19 Commitments

3.19.1 Lease arrangements where the Company is a lessee

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 payable are charged to the statement of profit or loss on a straight-line basis.

4 Cash and cash equivalents

Cash in hand	2017	2016
	16,000	18,000
Cash at banks	12,358,236	20,240,398
	<u>12,374,236</u>	<u>20,258,398</u>

The Company does not earn profits on current accounts with banks and financial institution

5 Prepayments and other receivables

	2017	2016
Prepaid rent	574,173	1,754,489
Prepaid takaful	453,347	559,998
Prepaid banking fees	297,027	404,235
Prepaid- software and IT	412,303	51,036
Advances to staff	257,957	184,849
Other prepaid expenses	192,403	235,083
Accrued profit on deposit	86,380	51,074
Others	425,392	628,834
	<u>2,698,982</u>	<u>3,869,598</u>

(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
As at 31 DECEMBER, 2017
(All amounts in Saudi Riyals unless otherwise stated)

6 RELATED PARTY TRANSACTIONS

The following shall be deemed to be a related party:

- Any member of the Board of Directors or Board committees;
- Any member of senior management;
- Any person directly or indirectly holds or controls five percent or more of the capital or voting rights of a finance company, and any entity in which such person directly or indirectly holds or controls five percent or more of the entity's capital or voting rights;
- Any person directly or indirectly holds or controls five percent or more of any type of securities that entitles their holders to receive dividends or a share of the finance company's income;
- Any entity in which the finance company directly or indirectly holds or controls five percent or more of the stocks or voting rights; and
- Any ascendant or descendant up to the second degree, or spouse of any of the persons listed.

Transactions during the year	Note	2017	2016
Shareholders / directors / parent company / subsidiaries of parent company			
Nature of transactions			
Income from Islamic financing		2,506	97,433
Management fees		-	1,848,588
Collection fee income		37,555	59,970
Financial facilities obtained		168,000,000	485,000,000
Financial facilities repaid		165,000,000	495,000,000
Finance cost		4,517,947	4,539,196
Rent Expense		222,000	222,000
Expenses paid on behalf of associates		340,558	427,752
Key management personnel			
Salaries and other short-term employee benefits		4,656,300	6,073,806
Balances as at year end		2017	2016
Due from related parties			
Shareholders / directors / parent company / subsidiaries of parent company		-	427,752
Islamic financing		1,664	119,650
Due to related parties			
Shareholders / directors / parent company / subsidiaries of parent company		20,000	95,335

Saudi Finance Company
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
As at 31 DECEMBER, 2017
(All amounts in Saudi Riyals unless otherwise stated)

7 NET INVESTMENT IN ISLAMIC FINANCING

	Murabaha		Ijara		Tawarruq		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Gross investment in islamic financing	13,529,329	36,237,929	1,559,214	2,176,555	488,079,494	463,057,523	503,168,037	501,472,007
Unearned / Deferred islamic financing income	(1,860,712)	(4,282,116)	(377,568)	(647,225)	(131,425,807)	(119,551,764)	(133,664,087)	(124,481,105)
	<u>11,668,617</u>	<u>31,955,813</u>	<u>1,181,646</u>	<u>1,529,330</u>	<u>356,653,687</u>	<u>343,505,759</u>	<u>369,503,950</u>	<u>376,990,902</u>
Unearned origination fees	(47,472)	(65,843)	(2,260)	(4,364)	(1,861,573)	(1,554,741)	(1,911,305)	(1,624,948)
Deferred transaction costs	81,737	84,264	4,664	8,855	2,989,111	2,226,403	3,075,512	2,319,522
	<u>11,702,882</u>	<u>31,974,234</u>	<u>1,184,050</u>	<u>1,533,821</u>	<u>357,781,225</u>	<u>344,177,421</u>	<u>370,668,157</u>	<u>377,685,476</u>
							<u>(10,095,337)</u>	<u>(13,591,786)</u>
							<u>360,572,820</u>	<u>364,093,690</u>
							<u>151,407,365</u>	<u>157,941,662</u>
							<u>219,260,792</u>	<u>219,743,814</u>

Analysis of quality of investment in islamic financing is as follows:

	2017	2016
Neither past due nor impaired	214,138,000	171,723,521
Past due but not impaired	138,518,672	178,445,113
Past due and impaired	<u>16,847,278</u>	<u>26,822,268</u>
	<u>369,503,950</u>	<u>376,990,902</u>

Saudi Finance Company
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
As at 31 DECEMBER, 2017
(All amounts in Saudi Riyals unless otherwise stated)

7.1 The maturity of the gross investment in islamic financing referred as "GIIF" and present value of gross investment in islamic financing referred as "PV of GIIF" is as follows:

	2017		2016	
	GIIF	PV of GIIF	GIIF	PV of GIIF
Less than one year	194,728,439	150,931,820	197,230,518	157,651,203
Later than one year but not later than five years	308,397,234	218,550,598	304,241,489	219,339,699
More than five years	42,364	21,532	-	-
	<u>503,168,037</u>	<u>369,503,950</u>	<u>501,472,007</u>	<u>376,990,902</u>

7.2 The Company in ordinary course of its business, holds collateral in respect of the islamic financing (being the title of assets leased out) in order to mitigate the credit risk associated with them. These collaterals are not readily convertible into cash and are intended to be repossessed and disposed of in case the customer defaults.

7.3 The movement in impairment of islamic financing is as follows:

	Note	2017	2016
Balance at the beginning of the year		13,591,786	19,563,463
Provided during the year	24	9,620,000	9,080,000
Written off during the year		(13,116,449)	(15,051,677)
Balance at the end of the year		<u>10,095,337</u>	<u>13,591,786</u>

(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
As at 31 DECEMBER, 2017
(All amounts in Saudi Riyals unless otherwise stated)

8. INVESTMENTS - AVAILABLE FOR SALE

During 2017, in accordance with instructions issued by SAMMA the Company as at the date of approval of these financial statements has made an investment in Ijara Registry Company amounting to SR 892,850. The Legal formalities including issuance of ownership documents is under process.

9. ASSETS REPOSSESSED HELD FOR SALE

During 2016, the Company has acquired certain real estate properties in satisfaction of a claim in order to achieve an orderly realization of Murabaha receivables. Company has filed a legal case against the erstwhile owner for realising the property. Company does not believe to have any contingent liability with regards to the legal case filed by the Company. The properties as of December 31, 2016 and 2017 are carried at lower of carrying amount or net realizable value.

These properties are legally owned by one of the board members of the Company for the sole benefit of the Company.

10. RESTRICTED CASH DEPOSIT

The Company has placed these funds in restricted bank accounts kept as call margins for certain financing facilities granted to the Company by counter party finance providers amounting to SR 3,525,545 (2016: SR 5,484,409).

11. PROPERTY AND EQUIPMENT

Description	2017		2017		2017	
	As at 1-Jan-17	Additions / (disposals/transfers)	As at 31-Dec-17	As at 1-Jan-17	Charge for the year / (on disposals)	As at 31-Dec-17
	Cost		Accumulated depreciation	Net book value		
Furniture & Fixture	2,853,679	92,229	2,945,908	1,500,412	328,898	1,829,310
Office Equipment	3,887,064	1,890,912	5,777,976	2,967,579	904,135	3,871,714
Motor Vehicles	349,600	(123,300)	226,300	190,959	84,624	160,636
Leasehold Improvements	5,556,943	-	5,556,943	2,171,533	797,913	2,969,446
Capital Work in progress	52,763	1,891,633	-	-	-	-
		(1,944,396)				
	12,700,049	3,874,774	14,507,127	6,830,483	2,115,570	8,831,106
		(2,067,696)			(114,947)	
						5,676,021

(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
As at 31 DECEMBER, 2017
 (All amounts in Saudi Riyals unless otherwise stated)

Description	2016				2017			
	As at 1-Jan-16	Additions / (disposals/transfers)	As at 31-Dec-16	Accumulated depreciation As at 1-Jan-16 (on disposals)	As at 1-Jan-17	Accumulated amortization Charge for the year / (on disposals)	As at 31-Dec-17	Net book value As at 31-Dec-16
Furniture & Fixture	2,619,562	234,097	2,853,679	1,189,972	310,440	1,500,412	1,353,267	
Office Equipment	3,845,371	41,693	3,887,064	2,137,813	829,766	2,967,579	919,485	
Motor Vehicles	824,527	-	349,600	538,704	103,648	190,959	158,641	
		(474,927)			(451,393)			
Leasehold Improvements	5,512,293	44,650	5,556,943	1,379,963	791,550	2,171,533	3,385,410	
Capital Work in progress	-	360,003	52,763	-	-	-	52,763	
		(307,240)						
	12,801,773	680,443	12,700,049	5,246,472	2,035,404	6,830,483	5,869,566	
		(782,167)			(451,393)			

12 INTANGIBLES

Description	2016				2017			
	As at 1-Jan-16	Additions / (disposals/transfers)	As at 31-Dec-16	Accumulated amortization As at 1-Jan-16 (on disposals)	As at 1-Jan-17	Accumulated amortization Charge for the year / (on disposals)	As at 31-Dec-17	Net book value As at 31-Dec-17
Computer Software	5,038,942	3,353,662	8,392,604	2,771,656	1,330,423	4,102,079	4,290,525	
Capital work in progress	56,792	3,400,950	105,820	-	-	-	105,820	
		(3,351,922)						
	5,095,734	6,754,612	8,498,424	2,771,656	1,330,423	4,102,079	4,396,345	
		(3,351,922)						
				2016				
		Cost		Accumulated amortization		Net book value		
	As at	Additions /	As at	As at	Charge	As at	As at	
	1-Jan-16	(disposals/transfers)	31-Dec-16	1-Jan-16	for the year /	31-Dec-16	31-Dec-16	
					(on disposals)			
Computer Software	4,395,969	642,973	5,038,942	1,601,343	1,170,313	2,771,656	2,267,266	
Capital work in progress	160,804	470,576	56,792	-	-	-	56,792	
		(574,588)						
	4,556,773	1,113,549	5,095,734	1,601,343	1,170,313	2,771,656	2,324,078	
		(574,588)			-			

(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
As at 31 DECEMBER, 2017
 (All amounts in Saudi Riyals unless otherwise stated)

13 SHARE CAPITAL

The Company's subscribed and paid-in share capital of SR. 100,000,000 is divided into 10,000,000 equity shares of SR. 10 each fully subscribed and paid, and distributed among shareholders as follows:

	2017		
	2017	2016	
Shareholders	Holding %	No. of Share	Amount
ADIB Two Financial Invest LLC, U.A.E	51%	5,100,000	51,000,000
Abdullah Ibrahim Al Khorayef Sons Company, K.S.A	46%	4,600,000	46,000,000
Mohamed Abdullah Al Khorayef	1%	100,000	1,000,000
Saad Abdullah Al Khorayef	1%	100,000	1,000,000
Hamad Abdullah Al Khorayef	1%	100,000	1,000,000
	100%	10,000,000	100,000,000

No change in shareholding from last year 2016

14 STATUTORY RESERVE

As required by the Company's by-laws, 10% of the net profit for the year, has been transferred to the statutory reserve. The Company may resolve to discontinue such transfers when the reserve totals 30% of the share capital. The reserve is not available for distribution.

	2017	2016
	15 EMPLOYEES' POST-EMPLOYMENT BENEFIT	
Present value of the defined benefit obligation	2,766,223	2,279,183
Fair value of plan assets	-	-
Deficit	2,766,223	2,279,183

The major financial assumptions used to calculate the employees' post-employment benefits liabilities are as follows:

	2017	2016
	15.1 Principal actuarial assumptions	
Discount rate (% per annum)	3.60%	3.60%
Rate of change in salary (% per annum)	2.50%	2.50%
Mortality rates	125% SLIC (2001-2005)	125% SLIC (2001-2005)
Employee turnover (withdrawal) rates	Moderate	Moderate

	2017	2016
	15.2 Amount Chargeable to Profit and loss	
Service cost	836,055	464,497
Profit on net defined benefit liability	80,196	-
Total amount charged to Statement of Profit and Loss	916,251	464,497

(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
As at 31 DECEMBER, 2017
 (All amounts in Saudi Riyals unless otherwise stated)

15.3 Reconciliation of the Present value of defined benefit obligation

	2017	2016
Present value of the defined benefit obligation at 1 st January	2,279,183	2,033,707
Current service cost	836,055	464,497
Profit on defined benefit obligations	80,196	-
Benefits paid during the period	(473,137)	(219,021)
Actuarial loss	43,926	-
Present value of defined benefit obligation at 31 st December	2,766,223	2,279,183

15.4 Amount Chargeable to Other Comprehensive Income (OCI)

	2017	2016
Actuarial (Gains) / Losses due to change in demographic assumptions	-	-
Actuarial (Gains) / Losses due to change in financial assumptions	-	-
Actuarial losses due to experience adjustments	43,926	-
Return on plan assets	-	-
Amount charged to Statement of Other Comprehensive Income (OCI)	43,926	-

15.5 The sensitivity of the employees' post-employment benefit to changes in the weighted principal assumptions is:

	Change in assumption	Increase / (decrease) in present value of employees' post-employment benefit liability
		Amount
Discount rate	+1%	2,246,609
	-1%	2,719,830
Long term salary	+1%	2,720,098
	-1%	2,242,455
Mortality	+1%	2,464,684
	-1%	2,463,798
Employee turnover rate	+1%	2,454,218
	-1%	2,474,324

16 TRADE PAYABLES
 These represent non-profit-bearing payables against purchase of assets leased by the Company.

17 OTHER PAYABLES AND ACCRUALS

	2017	2016
Accrued expenses	6,921,158	5,395,962
Others	589,555	355,125
	7,510,713	5,751,087

(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
As at 31 DECEMBER, 2017
(All amounts in Saudi Riyals unless otherwise stated)

18 PROVISION FOR ZAKAT

The movement in provision for zakat for the year ended 31 December 2017 is as follows:

	Note	2017	2016
Balance at the beginning of the year		16,839,346	12,825,846
Provided during for the year		4,208,543	4,608,861
Reversal of excess zakat		-	-
Payment during the year		(280,103)	(595,361)
Balance at the end of the year		<u>20,767,786</u>	<u>16,839,346</u>

18.1 Charge for the year

Zakat is payable by the Saudi and GCC shareholders and is calculated based on the higher of zakat base or the zakatable income for the year.

	Note	2017	2016
Computation of zakat base:			
Shareholders' equity at beginning		131,077,538	119,067,458
Opening provisions and adjustments		40,775,871	64,255,230
Financial facilities		-	-
Book value of long-term assets		(10,072,366)	(10,243,871)
Investments – Available for sale		(892,850)	-
		<u>160,888,193</u>	<u>173,078,817</u>
Zakatable income	18.2	7,453,509	11,275,611
Zakat Base		<u>168,341,702</u>	<u>184,354,428</u>
Zakat due		<u>4,208,543</u>	<u>4,608,861</u>

Company's shareholders are covered under GCC therefore no income tax is applicable.

(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
As at 31 DECEMBER, 2017
(All amounts in Saudi Riyals unless otherwise stated)

18.2 Computation for zakatable income	Note	2017	2016
Profit for the year		10,335,728	16,618,941
Less: Unrealized loss on Shari'a alternatives for financial derivative instruments		(183,243)	332,735
Less: Gain on sale of property and equipment		(39,352)	(126,046)
ADD: Provision for end of service benefits		960,177	464,497
ADD: WHT payment		349,785	176,182
Less: Payment EOSB		(473,137)	(219,021)
ADD: Provision for doubtful debts - provided		9,620,000	9,080,000
Less: Provisions written off during the year		(13,116,449)	(15,051,677)
Zakatable income for the year		<u>7,453,509</u>	<u>11,275,611</u>

18.3 Status of assessments

During 2016, zakat assessments have been raised by the General Authority of Zakat and Tax ("GAZT") for the years 2005 to 2007 assessing an additional zakat of SR 2,621,509 against which the Company has filed an appeal. No provision has been recorded in these financial statements in this respect, as the Company is confident of a favorable outcome on this matter. The Company has filed zakat returns and has obtained provisional zakat certificate for all the years up to 2016 and these are still under review by the GAZT. During 2016, the Company received certain queries related to the year 2014 from the GAZT and has sent its response to the GAZT.

19 SHARI'A ALTERNATIVES FOR FINANCIAL DERIVATIVE INSTRUMENTS

Profit rate swaps	2017	2016
	<u>131,122</u>	<u>314,365</u>
	Less than 1 year	Between 1 years and 2 years
Current assets	1,608,974	-
Non-current assets	-	12,199,053
Current liabilities	(1,608,974)	-
Non-current liabilities	-	(12,199,053)
	Between 2 years and 5 years	Between 2 years and 5 years
	-	8,086,782
	-	(8,086,782)

As at 31 December 2017, the Company held Profit Rate Swaps ("PRS") of a notional value of around SR 21,894,809 (2016: SR 42,814,719).

(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
As at 31 DECEMBER, 2017
(All amounts in Saudi Riyals unless otherwise stated)

20	FINANCIAL FACILITIES	Note	2017	2016
	Short-term financial facilities		168,000,000	165,000,000
	Long-term financial facilities	20.1	46,895,892	86,399,696
			<u>214,895,892</u>	<u>251,399,696</u>
20.1	Current portion			
	Long-term financial facilities		20,550,455	34,568,168
	Non-current portion			
	Long-term financial facilities		26,345,437	51,831,528
			<u>46,895,892</u>	<u>86,399,696</u>

20.2 The Company obtained bank financial facilities from local Islamic banks for the purpose of financing working capital needs. These bank facilities bear finance cost at market prevailing rates and also have restricted cash deposit required refer (Note 10)

20.3 These facilities are collateralized against the receivables assigned to banks amounting to SR 59 million (2016 SR 117 million).

20.4 The facility agreements include covenants which, among other things, require the Company to maintain certain financial ratios. As of 31 December 2017, the Company was not in compliance with certain covenants of the financing agreements. Subsequent to the year end and prior to the approval of the financial statements, the management has secured the necessary waiver from the respective bank and accordingly believes that the lenders will not exercise their right to demand accelerated / immediate payment of the outstanding balance from the Company.

21 CONTINGENCIES AND COMMITMENTS

The Company has the following contingent liabilities and commitments as at 31 December:

	Note	2017	2016
Payments under operating leases recognized as an expense during the year			
Within 1 year		2,453,500	2,569,000
After 1 year but not more than 5 years		7,867,219	9,733,458
More than 5 years		-	-

Premises rent under operating lease arrangements represent rentals payable by the Company for certain office properties. Leases are negotiated for an average term of one year and rentals are fixed for the same period.

(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
As at 31 DECEMBER, 2017

(All amounts in Saudi Riyals unless otherwise stated)

22	INCOME FROM ISLAMIC FINANCING				
	Income from Ijara	2017	2016		
	Income from Murabaha	95,108	47,343		
	Income from Tawarruq	3,313,664	7,144,748		
		57,355,209	61,706,593		
		<u>60,763,981</u>	<u>68,898,684</u>		
22.1	Directly allocated transaction cost of Islamic financing is amounting to SR 1,567,038 (2016: SR 1,440,889)				
22.2	Takaful expense for Ijara and Murabaha financing is amounting to SR 1,473,178 (2016: SR 2,127,192).				
23	FINANCE COST				
	Financial charges on bank financing facilities	Note	2017	2016	
		20	8,112,124	10,127,527	
24	IMPAIRMENT ON ISLAMIC FINANCING				
	Impairment on Islamic financing	Note	2017	2016	
		7.3	9,620,000	9,080,000	
			<u>9,620,000</u>	<u>9,080,000</u>	
25	SELLING AND DISTRIBUTION EXPENSES				
	Salaries, wages and other benefits		2017	2016	
	Advertising expenses		5,611,918	5,702,241	
	Sales Commission		78,363	134,982	
			<u>1,255,000</u>	<u>979,961</u>	
			6,945,281	6,817,184	
26	GENERAL AND ADMINISTRATIVE EXPENSES				
	Salaries, wages and other benefits	Note	2017	2016	
	Rent expense		16,473,057	17,103,106	
	Legal, professional and consultancy fees		2,533,773	3,070,095	
	Depreciation	11	3,643,720	2,305,918	
	Amortization	12	2,115,570	2,035,404	
	Stationary and printing		1,330,423	1,170,313	
	Government expenses		119,556	157,368	
	Repair and maintenance		451,532	415,304	
	Utilities		1,165,647	972,795	
	Miscellaneous		1,099,604	1,181,834	
			<u>1,710,921</u>	<u>1,176,554</u>	
			30,643,803	29,588,691	
27	OTHER INCOME				
	Origination fee		2017	2016	
	Management Fees		986,929	1,257,877	
	Write-off recovery		-	1,848,588	
	Others		3,605,812	241,797	
			<u>116,971</u>	<u>318,132</u>	
			4,709,712	3,666,394	
28	EARNINGS PER SHARE - basic and diluted				

Earnings per share from net income for the year is calculated by dividing net income for the year by the number of shares for the year amounting to 10,000,000 shares (2016: 10,000,000 shares)

(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
As at 31 DECEMBER, 2017
(All amounts in Saudi Riyals unless otherwise stated)

29 RISK MANAGEMENT

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

29.1 Risk management structure

Board of Directors

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

Credit and risk management committee

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

Audit committee

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

Internal audit

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

The risks faced by the Company and the way these risks are mitigated by management are summarized below.

29.2 Market risk

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

Market risk comprises of three types of risks: currency risk, profit rate risk and other price risk.

29.2.1 Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company is subject to fluctuations in foreign exchange rates in the normal course of its business. The Company did not undertake significant transactions in currencies other than Saudi Riyals during the year. Accordingly, the Company is not exposed to any significant currency risk.

(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
As at 31 DECEMBER, 2017
 (All amounts in Saudi Riyals unless otherwise stated)

29.2.2 Profit rate risk

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

Sensitivity analysis for variable rate financial instruments

	2017		2016	
	Change in Basis point	Impact on Income for the Year	Change in Basis point	Impact on Income for the year
Saudi Riyals	+25	292,982	+25	296,695
Saudi Riyals	-25	(292,982)	-25	(296,695)

29.2.3 Other price risk

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

29.3 Credit risk

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

Out of the total assets of SR 396.22 million (2016: SR 408.41 million), the assets which were subject to credit risk amounted to SR 376.96 million (2016: SR 390.72 million). The management analyze the credit risk in the following categories:

	Note	2017	2016
Net investment in Islamic financing	7	360,572,820	363,936,528
Bank balances and Restricted Cash Deposits	4 & 10	15,899,781	25,742,807
Accrued Income and Other Receivables		483,109	1,042,612
		<u>376,955,710</u>	<u>390,721,947</u>

29.3.1 Net investment in Islamic financing

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

The Company also follows a credit classification mechanism, primarily driven by days delinquency as a tool to manage the quality of credit risk of the Islamic financing portfolio.

(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
As at 31 DECEMBER, 2017
(All amounts in Saudi Riyals unless otherwise stated)

The ageing of net investment in Islamic financing is as under:

	2017	2016
Neither past nor due	214,138,000	171,723,521
Past due 1-30 days	85,580,935	99,619,126
Past due 31-90 days	52,937,737	78,825,988
Past due 91-180 days	10,224,629	17,524,549
Past due 181-365 days	6,622,649	9,297,718
Past due over 1 year	-	-
Less: Impairment for Islamic financing	369,503,950	376,990,902
Net of impairment	<u>(10,095,337)</u>	<u>(13,591,786)</u>
Total portfolio coverage ratio	<u>359,408,613</u>	<u>363,399,116</u>
	<u>2.73%</u>	<u>3.61%</u>

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

Concentration risk

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

The Company manages its credit risk exposure through diversification of Islamic financing activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or businesses.

Collateral held as security and other credit enhancements

The credit risks on gross amounts due in relation to the investment in Islamic financing is mitigated by holding collaterals. Further, the Company has obtained collaterals from some of its customers amounting to SR 207 million as at 31 December 2017 (31 December 2016: SR203 million).

29.3.2 Bank balances and other receivables

Funds are placed with banks having good credit ratings and therefore are not subject to significant credit risk. Other receivables are neither significant nor exposed to significant credit risk.

29.4 Liquidity Risk

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

The table below summarizes the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
As at 31 DECEMBER, 2017
(All amounts in Saudi Riyals unless otherwise stated)

	2017			
	Carrying amount	Contractual cash flows	up to three months	More than three months and up to one year
Trade payables	12,971,500	12,971,500	12,971,500	-
Other payables and accruals	7,510,713	7,510,713	-	7,510,713
Due to related parties	20,000	20,000	20,000	-
Provision for zakat	20,767,786	20,767,786	-	4,208,543
Shari'a alternatives for financial derivative instruments	131,122	131,122	131,122	-
Financial facilities	214,895,892	222,056,181	6,422,725	187,909,974
Employees' end of service benefits	2,766,223	2,766,223	-	-
	<u>259,063,236</u>	<u>266,223,525</u>	<u>19,545,347</u>	<u>199,629,230</u>
				<u>47,048,948</u>

2016

	Carrying amount	Contractual cash flows	up to three months	More than three months and up to one year	More than one year
	Trade payables	658,175	658,175	658,175	-
Other payables and accruals	5,751,087	5,751,087	-	5,751,087	-
Due to related parties	95,335	95,335	95,335	-	-
Provision for zakat	16,839,346	16,839,346	-	4,608,861	12,230,485
Shari'a alternatives for financial derivative instruments	314,365	314,365	314,365	-	-
Financial facilities	251,399,696	262,636,032	11,708,393	195,904,975	55,024,664
Employees' end of service benefits	2,279,183	2,279,183	-	-	2,279,183
	<u>277,337,187</u>	<u>288,575,523</u>	<u>12,776,268</u>	<u>206,264,923</u>	<u>69,534,332</u>

Analysis of financial assets and liabilities based on maturities

The table show analysis of financial assets and liabilities according to when they are expected to be recovered or settled:

	2017			
	Carrying amounts	up to three months	More than three months and up to one year	More than one year
Cash and cash equivalents	12,374,236	12,374,236	-	-
Prepayments and other receivables	2,698,982	-	2,698,982	-
Due from related parties	-	-	-	-
Net investment in islamic financing	360,572,820	44,373,266	102,911,103	213,288,451
Investment - available for sale	892,850	-	-	892,850
Assets repossessed held for sale	6,087,234	-	6,087,234	-
Restricted cash deposit	3,525,545	-	500,000	3,025,545
Property and equipment	5,676,021	-	-	5,676,021
Intangible assets	4,396,345	-	-	4,396,345
Financial assets	396,224,033	56,747,502	112,197,319	227,279,212

(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
As at 31 DECEMBER, 2017
(All amounts in Saudi Riyals unless otherwise stated)

Trade payables	12,971,500	12,971,500	-	-
Other payables and accruals	7,510,713	-	7,510,713	-
Due to related parties	20,000	20,000	-	-
Provision for zakat	20,767,786	-	4,208,543	16,559,243
Shari'a alternatives for financial derivative instruments	131,122	131,122	-	-
Financial facilities	214,895,892	5,948,816	182,601,639	26,345,437
Employees' end of service benefits	2,766,223	-	-	2,766,223
Financial liabilities	259,063,236	19,071,438	194,320,895	45,670,903
Maturity gap	137,160,797	37,676,064	(82,123,576)	181,608,309
Cumulative maturity gap	137,160,797	37,676,064	(44,447,512)	137,160,797
		2016		
	Carrying amounts	up to three months	More than three months and up to one year	More than one year
Cash and cash equivalents	20,258,398	20,258,398	-	-
Prepayments and other receivables	3,869,598	-	3,869,598	-
Due from related parties	427,752	427,752	-	-
Net investment in Islamic financing	364,093,690	51,300,364	100,880,304	211,913,022
Assets repossessed held for sale	6,087,234	-	6,087,234	-
Restricted cash deposit	5,484,409	-	-	5,484,409
Property and equipment	5,869,566	-	-	5,869,566
Intangible assets	2,324,078	-	-	2,324,078
Financial assets	408,414,725	71,986,514	110,837,136	225,591,075
Trade payables	658,175	658,175	-	-
Other payables and accruals	5,751,087	-	5,751,087	-
Due to related parties	95,335	95,335	-	-
Provision for zakat	16,839,346	-	4,608,861	12,230,485
Shari'a alternatives for financial derivative instruments	314,365	314,365	-	-
Financial facilities	251,399,696	9,554,358	190,013,810	51,831,528
Employees' end of service benefits	2,279,183	-	-	2,279,183
Financial liabilities	277,337,187	10,622,233	200,373,758	66,341,196
Maturity gap	131,077,538	61,364,281	(89,536,822)	159,249,879
Cumulative maturity gap	131,077,538	61,364,281	(28,172,341)	131,077,538

(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
As at 31 DECEMBER, 2017
(All amounts in Saudi Riyals unless otherwise stated)

29.5 Fair values of financial assets and liabilities

The Company's financial assets consist of cash and bank balances, net investment in Islamic financing, restricted cash deposits and other receivables, its financial liabilities consist of trade payables, short term financial facilities, due to related parties and other liabilities.

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

The fair values of financial instruments are not materially different from their carrying values except for the net investment in Islamic financing that are carried at amortized cost.

29.6 Capital risk management

The objective of the Company when managing capital is to safeguard its ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to maintain a strong capital base to support the sustained development of its business.

The Company manages its capital structure and makes adjustments to it in light of the 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 the objectives, policies or processes for managing capital during the years ended 31 December 2017 and 31 December 2016.

The Company monitors aggregate amount of financing offered by the Company on the basis of the regulatory requirements of Regulations for Companies and SAMA.

Aggregate financing to capital ratio	2017	2016
(Net investment in Islamic financing divided by total equity)	<u>2.63</u>	<u>2.78</u>

30 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards and interpretations, if applicable, when they become effective.

30.1 IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Company has assessed the impact of changes in the IFRS 9 requirements and concluded that the impact is material.

In October 2017, the IASB issued Prepayment Features with Negative Compensation (Amendments to IFRS 9). The amendments are effective for annual periods beginning on or after 1 January 2019, with early adoption permitted.

30.2 IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
As at 31 DECEMBER, 2017
(All amounts in Saudi Riyals unless otherwise stated)

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. The Company has assessed the impact of changes in the revenue recognition requirements and concluded that the impact is not material.

30.3 IFRS 16 Leases

IFRS 16 is issued in January 2017 that requires lessees to account for all leases (subject to certain exemptions) under a single on balance sheet model (i.e., in a manner comparable to finance leases under IAS 17). Lessees would recognize a liability to pay rentals with a corresponding asset, and would separately recognize interest expense and amortization. The standard includes two recognition and measurement exemptions for lessees:

- leases of low-value assets (e.g. small printer;) and
- short-term leases (i.e. leases with a lease term of 12 months or less).

The new standard also requires reassessment of certain key considerations (e.g., lease term, variable rents based on an index or rate, discount rate) by the lessee upon certain events. Lessor accounting would be essentially the same as today's lessor accounting, using IAS 17's dual classification approach. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted.

31 RESTATEMENT/RECLASSIFICATION OF PRIOR PERIOD FIGURES

Certain comparative information has been reclassified to conform to current year presentation. Further, as set out in note 3.1, the Company has changed its accounting policy to recognize zakat and income tax charge for the year to retained earnings. Previously, zakat was charged to the statement of profit or loss. The change in the accounting policy for zakat and income tax has the following impacts on the profit for the year and line items of the statements of financial position and changes in equity:

	Amount/balance as previously reported for the year ended and as at 31 December 2016	Effect of restatement	Amount/balance as restated for the year ended and as at 31 December 2016
Profit for the period	<u>12,010,080</u>	<u>4,608,861</u>	<u>16,618,941</u>

32 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorized for issue on 16 Jumada Al-Thani 1439H (corresponding to 4 March 2018) by the Board of Directors of the Company.