

**AJIL Financial Services Company
(A Saudi Closed Joint Stock Company)**

FINANCIAL STATEMENTS

31 DECEMBER 2017

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AJIL FINANCIAL SERVICES COMPANY

Opinion

We have audited the financial statements of AJIL Financial Services Company (the "Company"), which comprise the statement of financial position as at 31 December 2017, and the statement of profit or loss, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and summary of significant accounting policies and other explanatory notes from 1 to 31.

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 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

Directors are responsible for the preparation and fair presentation of the financial statements in accordance with 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 management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, 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 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.

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.

**INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF AJIL FINANCIAL SERVICES COMPANY (continued)**

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

- 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 Director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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 respects, 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

25 February 2018
9 Jumada II 1439H

Jeddah
17/384/OO



AJIL Financial Services Company
(A Saudi Closed Joint Stock Company)

STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017

	<i>Notes</i>	2017 SR	2016 SR (Restated)
Revenues	21	171,748,118	244,953,014
OPERATING EXPENSES			
Provision for lease losses	6	(20,500,868)	(68,865,855)
Provision for murabaha impairment losses	7	(416,308)	-
Depreciation	10	(1,714,065)	(1,592,627)
Amortization	11	(1,209,156)	(1,091,519)
General and administrative expenses	22	(56,073,516)	(65,328,333)
Financial charges	23	(52,774,664)	(56,181,898)
		(132,688,577)	(193,060,232)
NET PROFIT FOR THE YEAR		39,059,541	51,892,782

The attached notes 1 to 31 form part of these financial statements.

AJIL Financial Services Company
(A Saudi Closed Joint Stock Company)

STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Note	2017 SR	2016 SR (Restated)
Profit for the year		39,059,541	51,892,782
Other comprehensive (loss) / income:			
<i>Items to be reclassified to statement of profit or loss in subsequent periods:</i>			
Re-measurement losses on employee's terminal benefits	16	(1,006,200)	(709,000)
Total other comprehensive loss for the year		(1,006,200)	(709,000)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		38,053,341	51,183,782

The attached notes 1 to 31 form part of these financial statements.

AJIL Financial Services Company
(A Saudi Closed Joint Stock Company)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017 SR	2016 SR
ASSETS			
Cash and bank balances	4	46,918,342	58,520,472
Prepayments and other receivables	5	185,234,014	190,958,616
Net investment in finance leases	6	1,741,322,734	2,207,258,241
Murabaha financing receivables, net	7	41,214,534	-
Margin deposits	8	14,707,025	56,829,669
Property and equipment	10	5,648,516	5,510,311
Intangible assets	11	2,914,545	2,275,821
Investment classified as available-for-sale	12	892,850	-
Due from related parties	18	844,113	-
TOTAL ASSETS		2,039,696,673	2,521,353,130
EQUITY AND LIABILITIES			
EQUITY			
Share capital	13	500,000,000	500,000,000
Statutory reserve	14	93,341,004	89,435,050
Retained earnings		310,295,046	319,379,311
Actuarial losses	16	(2,947,200)	(1,941,000)
TOTAL EQUITY		900,688,850	906,873,361
LIABILITIES			
Trade and other payables	17	63,348,729	72,175,695
Due to related parties	18	2,865,522	23,918,344
Net servicing liability for sold finance lease receivables	9	1,712,027	7,619,270
Short term loans	19	967,777,080	1,429,998,672
Zakat and income tax	20	88,739,607	65,742,484
Employees' terminal benefits	16	14,564,858	15,025,304
TOTAL LIABILITIES		1,139,007,823	1,614,479,769
TOTAL EQUITY AND LIABILITIES		2,039,696,673	2,521,353,130

The attached notes 1 to 31 form part of these financial statements.

AJIL Financial Services Company
(A Saudi Closed Joint Stock Company)

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Notes	Saudi shareholders SR	Foreign shareholders SR	Total SR
2017				
SHARE CAPITAL				
Balance as at 1 January 2017 and 31 December 2017	13	375,000,000	125,000,000	500,000,000
STATUTORY RESERVE	14			
Balance as at 1 January 2017		67,076,288	22,358,762	89,435,050
Transferred from retained earnings		2,929,465	976,489	3,905,954
Balance as at 31 December 2017		70,005,753	23,335,251	93,341,004
RETAINED EARNINGS				
Balance as at 1 January 2017		240,151,048	79,228,263	319,379,311
Net profit for the year		29,294,656	9,764,885	39,059,541
Zakat and income tax		(5,492,427)	(3,533,106)	(9,025,533)
Net interim dividend	15	(7,854,014)	(4,803,729)	(12,657,743)
Adjustment of prior period zakat and tax from dividend	15	(19,453,625)	(3,100,951)	(22,554,576)
Transferred to statutory reserve		(2,929,465)	(976,489)	(3,905,954)
Balance as at 31 December 2017		233,716,173	76,578,873	310,295,046
ACTUARIAL LOSSES				
Balance as at 1 January 2017		(1,455,750)	(485,250)	(1,941,000)
Other comprehensive loss for the year	16	(754,650)	(251,550)	(1,006,200)
Balance as at 31 December 2017		(2,210,400)	(736,800)	(2,947,200)
TOTAL EQUITY		676,511,526	224,177,324	900,688,850
2016				
SHARE CAPITAL				
Balance as at 1 January 2016 and 31 December 2016	13	375,000,000	125,000,000	500,000,000
STATUTORY RESERVE	14			
Balance as at 1 January 2016		63,184,329	21,061,443	84,245,772
Transferred from retained earnings		3,891,959	1,297,319	5,189,278
Balance as at 31 December 2016		67,076,288	22,358,762	89,435,050
RETAINED EARNINGS				
Balance as at 1 January 2016		231,991,900	74,233,172	306,225,072
Net profit for the year (restated)		38,919,586	12,973,196	51,892,782
Zakat and income tax		(5,057,960)	(2,847,997)	(7,905,957)
Net interim dividend	15	(9,437,865)	(3,832,789)	(13,270,654)
Adjustment of prior period zakat and tax from dividend	15	(12,372,654)	-	(12,372,654)
Transferred to statutory reserve		(3,891,959)	(1,297,319)	(5,189,278)
Balance as at 31 December 2016		240,151,048	79,228,263	319,379,311
ACTUARIAL LOSSES				
Balance as at 1 January 2016		(924,000)	(308,000)	(1,232,000)
Other comprehensive income for the year	16	(531,750)	(177,250)	(709,000)
Balance as at 31 December 2016		(1,455,750)	(485,250)	(1,941,000)
TOTAL EQUITY		680,771,586	226,101,775	906,873,361

The attached notes 1 to 31 form part of these financial statements.

AJIL Financial Services Company
(A Saudi Closed Joint Stock Company)

STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	<i>Notes</i>	2017 SR	2016 SR
OPERATING ACTIVITIES			
Net Profit for the year		39,059,541	51,892,782
Adjustments for:			
Depreciation	10	1,714,065	1,592,627
Amortization	11	1,209,156	1,091,519
Provision for lease impairment losses	6	20,500,868	68,865,855
Provision for murabaha impairment losses		416,308	-
Employees' terminal benefits	16	1,889,108	2,618,853
Gain on disposal of property and equipment		(80,347)	(18,800)
Change in provision in respect of fair value of margin deposits	8	(1,232,518)	(3,927,011)
Income in respect of sold finance lease receivables		(14,333,448)	(31,992,665)
Operating profit before changes in operating assets and liabilities		49,142,733	90,123,160
Changes in operating assets and liabilities:			
Net investment in finance leases		445,434,639	(282,424,822)
Murabaha financing receivables		(41,630,842)	-
Prepayments and other receivables		5,724,602	140,833,733
Margin deposits		31,472,516	155,947,384
Due from related parties		(844,113)	-
Trade and other payables		(8,826,966)	(12,675,345)
Due to related parties		(21,052,822)	(14,877,977)
Net servicing liability for sold finance lease receivables		20,308,851	45,876,068
Cash from operations		479,728,598	122,802,201
Zakat and income tax paid	20	(8,582,986)	(13,306,623)
Employee's terminal benefits paid	16	(3,355,754)	(2,080,030)
Net cash from operating activities		467,789,858	107,415,548
INVESTING ACTIVITIES			
Purchase of investment classified as available-for-sale	12	(892,850)	-
Purchase of property and equipment and intangible assets	10 & 11	(3,700,150)	(1,960,547)
Proceeds from disposal of property and equipment		80,347	86,326
Net cash used in investing activities		(4,512,653)	(1,874,221)
FINANCING ACTIVITIES			
Net movement in short term borrowings		(462,221,592)	(99,817,995)
Dividends paid	15	(12,657,743)	(13,270,654)
Net cash used in financing activities		(474,879,335)	(113,088,649)
NET DECREASE IN CASH AND BANK BALANCES		(11,602,130)	(7,547,322)
Cash and bank balances at the beginning of the year	4	58,520,472	66,067,794
CASH AND BANK BALANCE AT THE END OF THE YEAR		46,918,342	58,520,472

The attached notes 1 to 31 form part of these financial statements.

AJIL Financial Services Company (A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2017

1 ACTIVITIES

AJIL Financial Services Company (the “Company” or “AJIL”) is registered in the Kingdom of Saudi Arabia under commercial registration number 4030122889, dated 30 Rajab 1418H (corresponding to 30 November 1997). The legal status of the Company was changed from a Limited Liability Company to a Closed Joint Stock Company under Ministerial Declaration number 206/Q, dated 18 Jumad Thani 1429H (corresponding to 22 June 2008), and according to Companies Law Provisions issued by Royal Decree number M/6 dated 27 Thul Quada 1417H (corresponding to 5 April 1997).

A new commercial registration certificate under the same number was issued by the Ministry of Commerce on 11 Rajab 1429H (corresponding to 14 July 2008).

The objectives of the Company are to engage in financing activities including leasing (and other related products) of projects in the industrial, transportation, agriculture, trading sectors and other skilled professions along with finance leasing of fixed and moveable assets including but not limited to industrial buildings, warehouses, production equipment, machinery, medical equipment, building equipment, transportation equipment, all kinds of vehicles, office equipment and computers.

The Company’s Head Office is located at the following address;

AJIL Financial Services Company
Jeddah 101 Building
Sari Street
P.O. Box 13624
Jeddah 21414
Kingdom of Saudi Arabia

On 21 Rajab 1435H (corresponding to 20 May 2014), the Company received a license from the Saudi Arabian Monetary Authority (“SAMA”) to conduct lease financing business in the Kingdom of Saudi Arabia. The Finance Companies Control Law was issued by the Saudi Council of Ministers through its publication No. 259 dated 12 Shabaan 1433H (corresponding to 2 July 2012) and the Royal Decree No. 51 dated 13 Shabaan 1433H (corresponding to 3 July 2012) and their implementing regulations were issued by SAMA for conducting lease financing business in the Kingdom of Saudi Arabia.

On 01 Muharram 1439H (corresponding to 21 Sep 2017), the Company received a no objection certificate from SAMA to conduct commodity murabaha business in the Kingdom of Saudi Arabia, which is valid till 10 Rajab 1439H (corresponding to 27 March 2018) and is renewable.

These financial statements include the results, assets and liabilities of the following branches:

Commercial Registration Number	Date of Issue	Location
44861	24/12/1424H	Dammam
31244	04/06/1426H	Al-Khobar
27895	28/02/1428H	Abha
23097	07/10/1435H	Jubail
424571	21/11/1435H	Riyadh
424579	21/11/1435H	Riyadh

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 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:

- 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.
- In compliance with the applicable requirements of the regulations for Companies in the Kingdom of Saudi Arabia and Company’s By-laws.

AJIL Financial Services Company
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2017

2 BASIS OF PREPARATION (continued)

2.1 STATEMENT OF COMPLIANCE (continued)

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 applicable requirements of the regulations for Companies and the finance law in the Kingdom of Saudi Arabia.

This change in framework resulted in a change in accounting policy for zakat and tax (as disclosed in note 3) and the effects of this change are disclosed in note 30 to the financial statements.

Assets and liabilities in the statement of financial position are presented in the order of liquidity.

2.2 BASIS OF MEASUREMENT

These financial statements have been prepared on a historical cost basis.

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.

2.4 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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 assets / liability

The Company enters into securitization and agency arrangements with banks. Under these arrangements, the Company has been appointed by the banks to service the receivables purchased by the banks. Assumptions used to calculate the servicing assets/ liability are based on estimates of collection costs to be incurred by the Company over the life of the individual securitization and agency transaction, executed under the respective securitization and agency agreement.

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.

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, 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.

2 BASIS OF PREPARATION (continued)

2.4 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Impairment of net investment in finance lease receivables and murabaha financing receivables

An estimate of the collectible amount of finance lease receivables and murabaha financing receivables 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.

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

The accounting policies adopted in the preparation of these financial statements are consistent with those used in the preparation of the Company's financial statements for the year ended 31 December 2016, except for:

i. Change in accounting policy in relation to accounting for zakat and income tax

As set out in note 2.1, the Company has amended its accounting policy relating to zakat and income tax and have started to charge zakat income tax for the period directly to retained earnings with a corresponding liability recognized in the statement of financial position. Previously, zakat income tax was 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 accounting policy relating to zakat and income tax retrospectively and the effects of above change are disclosed in note 30 to these financial statements.

ii. 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:

- 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 other than certain additional disclosures.

- 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.

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

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment in value. The cost less estimated residual value of other property and equipment is depreciated on a straight line basis over the estimated useful lives of the assets. Capital work-in-progress is not depreciated.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

Leasehold assets are depreciated on a straight line basis over the shorter of the useful life of the assets or the term of the lease after deducting the estimated residual value from the cost of such assets. The following rates of depreciation are applied:

Office equipment	20% to 25%
Furniture and fixtures	15%
Owned and leased motor vehicles	20%

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Expenditure for repairs and maintenance are charged to the statement of profit or loss. Expenditure that increases the value or materially extends the life of the related assets is capitalized.

An item of property and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that an intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss.

Subsequent costs are included in the asset's carrying amounts or recognised 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 or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

Net investment in finance leases

The determination of whether an arrangement contains a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Gross investment in finance leases represents the gross lease payments receivable by the Company, and the net investment represents the present value of these lease payments, discounted at commission rate implicit in the lease. The difference between the gross investment, provision for lease losses and the net investment is recognized as unearned finance income.

Contracts based on Musharaka, which in substance represents a syndicated lease arrangement, is recorded as net investment in finance lease and is stated at cost and represent the balance of the Company's share in the Musharaka funding.

Murabaha financing receivables

Murabaha is an Islamic form of financing where the Company, based on requests from its customers, purchases specific commodities and sells them to the customers at an agreed-upon price equal to the Company's cost plus a specified profit margin, which is payable on a deferred basis in agreed-upon installments.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions for lease losses and murabaha impairment losses

The Company reviews its delinquent finance lease receivables and murabaha financing receivables on a regular basis to assess whether specific provisions for impairment should be recorded in the statement of profit or loss. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash inflows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

In addition to specific provisions against significant finance lease receivables and murabaha financing receivables, the Company also makes a collective impairment provision against finance lease receivables and murabaha financing receivables which, although not specifically identified as requiring a specific provision, have a greater risk of default than when originally granted. This collective provision is based on the historical loss pattern for lease receivables and is adjusted to reflect current economic changes.

Cash and bank balances

Cash and bank balances in the statement of financial position comprise cash at banks in current accounts and cash on hand.

Financial instruments

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition as loans and receivables, held-to-maturity, available for sale or as derivatives, as appropriate. All financial assets are recognized initially at fair value plus, in 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.

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 derecognised when:

- the contractual right to receive cash flows from the asset has expired; or
- 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
- 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.

When the Company has transferred its contractual right to receive cash flows from an asset but has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company’s continuing involvement in the asset. Continuing involvement takes the form of a guarantee over the transferred assets, which was provided by the Company to banks. This guarantee represents the blocked margin deposits or bank guarantees provided to the banks, as the case may be, till the end of the agreements.

Where the Company is appointed to service the derecognized financial asset for a fee, the Company recognises 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 recognised 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 recognised for the servicing right. The total amount of such net servicing assets has been classified separately under ‘assets’ in these financial statements.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

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 agreements, and by estimating the present value of servicing liabilities and related provisions. The discount rate used is the rate agreed as per the terms of the respective securitization agreement. The change in present values of servicing assets, servicing liabilities and related provisions will be reassessed at each period end and the impact, if any, will be taken to the statement of profit or loss.

Following initial recognition, net servicing assets, being intangibles assets, are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Net servicing assets are amortised over their definite useful economic life (in conformity with the collection arrangements with the banks or private investors) 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 profit or loss.

Impairment and uncollectability 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 recognised in the statement of profit or loss. Impairment is determined as follows:

- (a) for assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the statement of profit or loss.
- (b) 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.
- (c) for assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective commission rate.

Financial liabilities

Initial recognition and measurement

The Company determines the classification of its financial liabilities at initial recognition. Financial liabilities are recognised 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, short term loans and accounts payable.

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.

Derecognition of financial liability

A financial liability is derecognised 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 recognised in the statement of profit or loss.

Fair value measurement

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:

- 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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.

Dividend distributions

The Company recognizes a liability to make cash dividends distribution to shareholders when the dividends are authorised and no longer at the discretion of the Company. The corresponding amount is directly recognized in statement of changes in equity.

Expenses

General and administrative expenses include direct and indirect costs not specifically part of the operating activities of the Company. They include salaries and other employee benefits, rent, consultancy charges, communication and others.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective profit rate method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective profit rate method.

Employees' terminal benefits - Net employee defined benefit liabilities

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 bonds 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 unrecognised re-measurement gains and losses as the entire re-measurement gains and losses are recognised as income or expense in the statement of other comprehensive income during the year in which they arise.

Zakat and income tax

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 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.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, 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. When the Company expects some or all of a provision to be reimbursed, for example, under an insurance 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.

Transactions in foreign currencies

Transactions in foreign currencies are recorded in Saudi Riyals at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the statement of financial position date. All differences are taken to the 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 rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

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 recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. Income and expenses are presented on a net basis only when permitted under International Financial Reporting Standards, or for gains and losses arising from a group of similar transactions.

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 recognised as unearned finance income. Finance lease income is recognised over the period of the lease on a systematic basis, which results in a constant periodic rate of return on the net investment outstanding. Direct costs incurred to generate lease finance income are netted off from earned lease income.

Income from Musharaka and securitization and agency agreements

Income from Musharaka includes the Company's share of distributable profits and management fees and is recognized under the terms of the agreements on an accrual basis.

Income from securitization and agency arrangements represents gains or losses on de-recognition of financial assets including income on amortization of net servicing asset.

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 BANK BALANCES

	2017 SR	2016 SR
Cash in hand	162,438	149,438
Bank balances	46,755,904	58,371,034
	<u>46,918,342</u>	<u>58,520,472</u>

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NOTES TO THE FINANCIAL STATEMENTS (continued)

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5 PREPAYMENTS AND OTHER RECEIVABLES

	2017 SR	2016 SR
Advance payments, net	170,553,850	177,586,189
Prepaid expenses	5,083,160	5,644,240
Advances to employees	3,529,419	4,111,423
Other receivables	6,067,585	3,616,764
	<u>185,234,014</u>	<u>190,958,616</u>

6 NET INVESTMENT IN FINANCE LEASES

	2017 SR	2016 SR
Gross investment in finance leases	2,236,538,499	2,636,682,020
Less: unearned finance income	<u>(276,466,833)</u>	<u>(231,175,715)</u>
Net investment in finance leases (before provision for lease losses)	1,960,071,666	2,405,506,305
Less: provision for lease losses (see note 6.1)	<u>(218,748,932)</u>	<u>(198,248,064)</u>
Net investment in finance leases	<u>1,741,322,734</u>	<u>2,207,258,241</u>

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2017

6 NET INVESTMENT IN FINANCE LEASES (continued)

The maturity of the gross investment in finance lease and net investment in finance leases is as follows:

	<i>Years</i>	<i>Gross Investment SR</i>	<i>Unearned finance income SR</i>	<i>Net investment (before provision for lease losses) SR</i>	<i>Provision for lease losses SR</i>	<i>Net investment SR</i>
Current portion	2018	1,386,161,027	(180,644,772)	1,205,516,255	(137,304,454)	1,068,211,801
Non-current portion	2019	471,484,426	(67,578,731)	403,905,695	(45,532,388)	358,373,308
	2020	274,631,065	(24,126,629)	250,504,436	(26,272,122)	224,232,314
	2021	78,052,003	(4,041,118)	74,010,885	(7,059,207)	66,951,678
	2022	26,209,978	(75,583)	26,134,395	(2,580,761)	23,553,634
Total non-current portion		850,377,472	(95,822,061)	754,555,411	(81,444,478)	673,110,933
31 December 2017		2,236,538,499	(276,466,833)	1,960,071,666	(218,748,932)	1,741,322,734

	<i>Years</i>	<i>Gross investment SR</i>	<i>Unearned finance income SR</i>	<i>Net investment (before provision for lease losses) SR</i>	<i>Provision for lease losses SR</i>	<i>Net investment SR</i>
Current portion	2017	1,705,715,960	(151,051,034)	1,554,664,926	(128,250,159)	1,426,414,767
Non-current portion	2018	666,265,492	(62,149,696)	604,115,796	(50,095,477)	554,020,319
	2019	237,186,049	(16,285,532)	220,900,517	(17,833,654)	203,066,863
	2020	24,580,246	(1,559,690)	23,020,556	(1,848,151)	21,172,405
	2021	2,934,273	(129,763)	2,804,510	(220,623)	2,583,887
Total non-current portion		930,966,060	(80,124,681)	850,841,379	(69,997,905)	780,843,474
31 December 2016		2,636,682,020	(231,175,715)	2,405,506,305	(198,248,064)	2,207,258,241

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2017

6 NET INVESTMENT IN FINANCE LEASES (continued)

6.1 The movement in provision for lease losses is given below:

	2017	2016
	SR	SR
At the beginning of the year	198,248,064	191,401,233
Provided during the year	20,500,868	68,865,855
Written off during the year	-	(62,019,024)
At the end of the year	<u>218,748,932</u>	<u>198,248,064</u>

6.2 As at 31 December 2017, 15.7% of the gross investment in finance leases are with the top 5 customers (2016: 11.09%).

6.3 As at 31 December 2017, finance leases amounting to SR 8.3 million are secured against letters of credit and bank guarantees (2016: SR 18.9 million).

6.4 The Company has entered into securitization and agency agreements with certain banks whereby the Company has sold to the banks certain investments in finance leases, with partial recourse to the extent of margin deposits with the banks under the securitization and agency agreements. The total value of the sold investments in finance lease receivables during the year has been netted off against amounts received from the banks under the securitization and agency agreements to buy the finance lease receivables from the Company. Due to the partial recourse available to the banks, the Company recognizes a liability against margin deposits maintained with the banks.

The Company is appointed by the banks to service the lease receivables purchased by them, and the corresponding net servicing asset and liability are disclosed on the statement of financial position.

6.5 The Company has entered into Musharaka agreements with certain investors to finance its leasing business under syndication arrangements. In accordance with the provisions of these agreements, syndicate investors participate in underlying leasing transactions and share the income generated from these syndicate leases on an agreed sharing basis. According to the syndication arrangement, the Company is responsible for the management and record keeping of the syndicate businesses. Accordingly, all the leasing documents, including collaterals, are signed by the customers in the name of the Company.

Total outstanding balance of such agreements as at 31 December 2017 amounted to SR 886.81 million (2016: SR 732.28 million). The Company recorded these transactions as net investment in finance leases up to the extent of its share in the Musharaka arrangement. As at 31 December 2017, the investments in Musharaka, amounted to SR 61.1 million (2016: SR 78.4 million), which represents the Company's maximum exposure in respect of these agreements.

The amount recognized as investment in Musharaka is stated at cost, which represents the balance of the Company's share in the Musharaka funding. The Company's share in the Musharaka income for the year amounted to SR 20.8 million (2016: SR 16 million). The income from such Musharaka is recognized on an accrual basis and is included in the earned lease income (see note 21).

6.6 Gross investment in finance leases include an amount of SR 26.1 million (2016: SR 26.7 million) due from related parties (see note 18).

6.7 The Company in ordinary course of its business, holds collateral in respect of the finance lease receivables (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.

6.8 As at 31 December 2017, the outstanding net finance lease receivables were SR 1,960 million (2016: SR 2,406 million) and the provision for lease losses was SR 219 million (2016: SR 198 million). Moreover the past due finance lease receivables as at 31 December 2017 were SR 567 million (2016: 583 million). Out of these past due finance lease receivables, SR 263 million (2016: 348 million) were past due for a period of 6 months or less, SR 107 million (2016: 133 million) were past due for a period of more than six months but less than twelve months and SR 197 million (2016: 103 million) were past due more than one year.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2017

6 NET INVESTMENT IN FINANCE LEASES (continued)

- 6.9 During the year ended 31 December 2017 the Company bought back certain securitised finance lease receivables amounting to SR 171.9 million. Consequently, related margin deposits (SR 51.31 million), bank guarantees (SR 15.15 million) and advances to banks (SR 74.08 million) have been released by the respective banks and a net amount of SR 46.51 million was paid by the Company to these banks. Previously, the Company securitized these receivables with the respective banks and was managing these receivables for an agreed fee. The buy-back transactions resulted in the net gain of SR 1.8 million (2016: 7.5 million), which was mainly on account of reversal of net servicing liability and provision in respect of fair value of margin deposits.
- 6.10 The accumulated balance of suspended income on delinquent lease receivables as at 31 December 2017 amounted to SR 42.6 million (31 December 2016: Nil)

7 MURABAHA FINANCING RECEIVABLES, NET

	2017 SR	2016 SR
Murabaha financing receivables	41,630,842	-
Less: provision for murabaha impairment losses for the year	(416,308)	-
	<u>41,214,534</u>	<u>-</u>
Murabaha financing receivables, net	<u>41,214,534</u>	<u>-</u>

The murabaha financing receivables are short term in nature and are maturing within twelve months from the statements of financial position date.

8 MARGIN DEPOSITS

	2017 SR	2016 SR
Margin deposits with banks	52,969,766	84,442,282
Less: Provision against expected defaults in respect of sold finance lease receivables (see note 6.4)	(33,709,822)	(21,827,176)
Provision in respect of fair value of margin deposits	(4,552,919)	(5,785,437)
	<u>14,707,025</u>	<u>56,829,669</u>
	<u>14,707,025</u>	<u>56,829,669</u>

The Company has placed these funds in restricted bank accounts against receivables sold to the banks as required under certain securitization and agency agreements. This amount represents the maximum liability (against defaulted receivables, if any) of the Company according to the relevant securitization and agency agreements (see note 6).

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2017

9 NET SERVICING ASSET FOR SOLD FINANCE LEASE RECEIVABLES

Assumptions and their sensitivity involved in the calculation of net servicing assets/ liability

Under the securitization and agency agreements, the Company has been appointed by the banks to service the purchased receivables. Where the Company is appointed to service the derecognized financial assets for a fee, the Company initially recognises either a net servicing asset or a net servicing liability for that servicing contract at its fair value.

The fair value of net servicing asset/ liability is determined based on the present value of estimated future cash flows related to contractually specified servicing fees less servicing costs. The primary determinants of the fair value of net servicing asset/ liability are discount rates, estimates of servicing costs and the fixed servicing fees.

Discount rates

Discount rate represents the current market assessment of the risks specific to the Company, taking into consideration the expectation of investor's return and the individual risks of the underlying assets. Such discount rates are adjusted for defaults and prepayments rates based on publicly available market data.

Servicing costs

The management assesses the cost of servicing including salaries and other direct costs. The annual change in the servicing cost represents the increment to the servicing cost as a result of inflation. Also, the calculation of discount rate and servicing cost is sensitive to expected default rate and prepayment risk, which are expected to be minimal.

Variations in one or a combination of these assumptions could materially affect the estimated values of net servicing assets. Evaluation of impairment is performed on a quarterly basis taking into consideration historical trends, past experience and forecasts of defaults and prepayments.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2017

10 PROPERTY AND EQUIPMENT

	<i>Office equipment SR</i>	<i>Furniture and fixtures SR</i>	<i>Leased vehicles SR</i>	<i>Motor vehicles SR</i>	<i>Capital work in progress SR</i>	<i>Total 2017 SR</i>	<i>Total 2016 SR</i>
Cost:							
At the beginning of the year	5,810,501	5,664,538	1,002,710	733,599	1,077,545	14,288,893	12,589,097
Additions	711,817	80,113	-	-	2,587,744	3,379,674	1,960,547
Disposals	(14,099)	-	-	(228,752)	-	(242,851)	(193,528)
Transfers (see note 11)	1,046,489	14,700	-	220,000	(2,808,593)	(1,527,404)	(67,223)
At the end of the year	<u>7,554,708</u>	<u>5,759,351</u>	<u>1,002,710</u>	<u>724,847</u>	<u>856,696</u>	<u>15,898,312</u>	<u>14,288,893</u>
Depreciation:							
At the beginning of the year	3,616,801	3,602,921	1,002,710	556,150	-	8,778,582	7,311,957
Charge for the year	860,249	763,234	-	90,582	-	1,714,065	1,592,627
Relating to disposals	(14,099)	-	-	(228,752)	-	(242,851)	(126,002)
At the end of the year	<u>4,462,951</u>	<u>4,366,155</u>	<u>1,002,710</u>	<u>417,980</u>	<u>-</u>	<u>10,249,796</u>	<u>8,778,582</u>
Net book amounts:							
At 31 December 2017	<u>3,091,757</u>	<u>1,393,196</u>	<u>-</u>	<u>306,867</u>	<u>856,696</u>	<u>5,648,516</u>	
At 31 December 2016	<u>2,193,700</u>	<u>2,061,617</u>	<u>-</u>	<u>177,449</u>	<u>1,077,545</u>		<u>5,510,311</u>

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2017

11 INTANGIBLE ASSETS

	2017	2016
	SR	SR
Cost:		
At the beginning of the year (see note below)	6,589,478	6,522,255
Additions during the year	320,476	-
Transferred from capital work in progress (see note 10)	1,527,404	67,223
	8,437,358	6,589,478
Amortization:		
At the beginning of the year	(4,313,657)	(3,222,138)
Amortized during the year (see note below)	(1,209,156)	(1,091,519)
	(5,522,813)	(4,313,657)
Net carrying value	2,914,545	2,275,821

Intangible assets represent costs incurred with respect to the acquisition of software license fee. Intangible assets are being amortized over a useful life of 5 years. For details of “net servicing asset for sold finance lease receivables”, refer note 9.

12 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 for registration of contracts relating to financial leases, amendments, registration and transfer of title deeds of the assets under the finance leases. Other finance and leasing Companies, registered in the Kingdom of Saudi Arabia, also have a pro-rata ownership interest in the Registration Company.

13 SHARE CAPITAL

The share capital of the Company is divided into 50,000,000 shares (2016: 50,000,000) of SR 10 each.

The shareholding structure of the Company is as follows:

Shareholders

	Ownership	2017	2016
	Percentage	SR	SR
<u>Saudi:</u>			
Riyad Bank	35%	175,000,000	175,000,000
Zahid Group Holding Company Limited	25%	125,000,000	125,000,000
Al – Wasilah Rent A Car Company Limited	5%	25,000,000	25,000,000
Khaled Ahmed Al – Juffali Company	5%	25,000,000	25,000,000
Al – Yemni Motors Company Limited	5%	25,000,000	25,000,000
<u>Non-Saudi:</u>			
MC Netherlands Leasing and Finance B.V	20%	100,000,000	100,000,000
Mitsubishi UFJ Lease & Finance Company Limited	5%	25,000,000	25,000,000
		500,000,000	500,000,000

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2017

14 STATUTORY RESERVE

As required by the regulations for Companies and Company's By-laws, 10% of the income (before zakat and income tax) for the year, has been transferred to the statutory reserve. The Company may resolve to discontinue such transfers when the reserve totals 30% (2016: 50%) of the share capital. The reserve, up to 30% of the share capital, is not available for distribution.

15 DIVIDEND

The shareholders in their general assembly meeting held on 25 May 2017 (2016: 14 June 2016), approved the distribution of dividend of SR 0.86 per share (2016: SR 0.86 per share) totaling SR 43 million (2016: SR 43 million) which was paid net of zakat amounting to SR 4.9 million (2016: SR 10.4 million) and income tax amounting to SR 2.8 million (2016: SR 6.9 million). Moreover, an adjustment of zakat and tax amounting to SR 22.5 million (2016: SR 12.37 million) has also been made from the interim dividend declared during the year in respect of zakat relating to prior periods under dispute with the General Authority of Zakat and Tax ("GAZT").

16 NET EMPLOYEE DEFINED BENEFIT LIABILITIES

	2017	2016
	SR	SR
Present value of unfunded defined benefit obligation	14,564,858	15,025,304

The major financial assumptions used to calculate the defined unfunded benefits plan (end-of-service benefits) liabilities are as follows:

Principal actuarial assumptions	2017	2016
Discount rate	3.60%	4.20%
General salary increases	5.00%	5.00%

a) The movements in defined benefit obligation recognized in the statement of financial position are as follows:

	2017	2016
	SR	SR
Net liability at the beginning of the year	15,025,304	13,777,481
Commission cost on plan obligations	502,700	533,100
Current service cost	1,386,408	2,085,753
Benefits paid during the year	(3,355,754)	(2,080,030)
Actuarial losses recognized during the year	1,006,200	709,000
Net liability at the end of the year	14,564,858	15,025,304

b) The amounts recognised in the statement of profit or loss in respect of defined unfunded benefits plan are as follows:

	2017	2016
	SR	SR
Employer's part of current service cost	1,386,408	2,085,753
Commission on net defined benefit liability	502,700	533,100
	1,889,108	2,618,853

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2017

17 TRADE AND OTHER PAYABLES

	2017 SR	2016 SR
Trade payables	30,812,386	40,878,118
Accrued expenses	27,732,253	28,633,715
Advance from customers	2,223,421	2,594,722
Payable to a bank in respect of sold finance lease receivables	2,580,669	-
Other payables	-	69,140
	<u>63,348,729</u>	<u>72,175,695</u>

18 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent major shareholders, directors and key management personnel of the Company, and entities controlled or significantly influenced by such parties (other related parties).

A summary of material balances with related parties included in the statement of financial position are as follows:

<i>Related party</i>	<i>Particulars</i>	2017 SR	2016 SR
Shareholder	Cash at bank	20,344,461	9,724,598
Shareholder	Gross investment in finance leases	964,922	5,463,986
Shareholder	Accrued expenses and other liabilities	(3,524,464)	-
Shareholder	Investments in Musharika	525,081	-
Others	Gross investment in finance leases	26,076,254	21,287,839
Others	Accounts payable	2,021,409	23,918,344
Shareholder	Short term loans	400,000,000	400,000,000

The following are the details of the major transactions with related parties during the year:

<i>Related party</i>	<i>Nature of transaction</i>	2017 SR	2016 SR
Shareholder	Purchases for leasing business	1,291,000	3,222,000
Shareholder	Leasing transactions	-	765,000
Shareholder	Financial charges	13,000,631	15,432,515
Shareholder	Short-term loans, net	-	(508,570,000)
Others	Purchases for leasing business	457,520,469	1,092,906,390
Others	Leasing transactions	823,470	210,950
Others	Payment for rental and support services	2,301,504	3,138,757

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18 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

The transactions with related parties are approved by the Company's management. Balances arising from above transactions are as follows:

Due to related parties

	2017 SR	2016 SR
<i>Shareholders:</i>		
<i>Others:</i>		
The Machinery Group L.L.C.	1,723,144	360,000
Saudi Company of Site Technology Limited	655,272	875,782
Juffali Printing Systems Company	487,106	155,738
Juffali Industrial Products Company	-	21,845,000
Zahid Tractor and Heavy Machinery Company Limited	-	637,917
Global Gypsum Company Limited	-	43,907
	<u>2,865,522</u>	<u>23,918,344</u>
	<u>2,865,522</u>	<u>23,918,344</u>

Due from related parties

	2017 SR	2016 SR
<i>Others:</i>		
Zahid Tractor & Heavy Machinery Co Ltd.	844,113	-
	<u>844,113</u>	<u>-</u>

Due from related parties (net investment in finance leases)

	2017 SR	2016 SR
<i>Shareholders:</i>		
Al -Wasilah Rent A Car Company Limited	-	5,463,986
	<u>-</u>	<u>5,463,986</u>
<i>Others:</i>		
Global Gypsum Company Limited	17,772,768	12,006,937
Wared Express Company Limited	4,068,119	5,584,757
Wared Transport Company	3,655,613	2,028,977
Khaled Ahmed Al Juffali Holding Company	315,643	1,293,620
Khaled Ahmed Juffali Construction Company	181,460	-
Khaled Ahmed Al Juffali Industrial Company	72,756	373,548
Juffali Printing Systems Ltd.	9,895	-
	<u>26,076,254</u>	<u>21,287,839</u>
	<u>26,076,254</u>	<u>26,751,825</u>

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18 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

Compensation of key management personnel of the Company

Remuneration and compensation of the key management executives for the year ended 31 December 2017 was SR 6.13 million (2016: SR 3.2 million). Remuneration, amounting to SR 0.6 million was paid to a director during the year ended 31 December 2017 (2016: SR 0.6 million).

19 SHORT TERM LOANS

	2017	2016
	SR	SR
Short term loans	967,777,080	1,429,998,672

These represent short term loans drawn from various local banks against credit lines of SR 2,728 million (2016: SR 2,950 million). These facilities carry fixed special commission rate and are repayable within 10 months (2016: 10 months) from the statement of financial position date. These facilities are collateralized against promissory notes issued by the Company.

20 ZAKAT AND INCOME TAX

a) Charge for the year

	2017	2016
	SR	SR
Zakat (note (b))	5,492,427	5,057,960
Income tax (note (c))	3,533,106	2,847,997
	9,025,533	7,905,957

b) Zakat

The zakat provision for the year is based on the following:

	2017	2016
	SR	SR
Equity	674,373,322	756,026,683
Opening provisions and other adjustments	964,346,162	1,259,315,022
Book value of long term assets	(1,481,148,254)	(1,813,023,305)
	157,571,230	202,318,400
Income subject to Zakat	62,125,861	97,611,415
Zakat base	219,697,091	202,318,400

The difference between the financial and the zakat results are mainly due to the provisions, which are not allowed in the calculation of income subject to zakat.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2017

20 ZAKAT AND INCOME TAX (continued)

Movement in provision during the year

The movement in zakat provision for the year was as follows:

	2017	2016
	SR	SR
At the beginning of the year	66,273,905	59,136,610
Provided during the year	5,492,427	5,057,960
Prior year adjustments	19,453,625	12,516,458
Payments during the year	(4,942,361)	(10,437,123)
At the end of the year	86,277,596	66,273,905

c) Income tax

Income tax charge relating to the non-Saudi shareholders, amounting to SR 3.6 million (2016: SR 2.8 million), consists of the current year provision, which has been provided for based on the estimated taxable profit at 20% (2016: 20%). Temporary differences arise mainly from provisions disallowed for tax purposes.

Movements in provision during the year

The movement in tax provision for the year was as follows:

	2017	2016
	SR	SR
At the beginning of the year	(531,421)	(366,114)
Provided during the year	3,533,106	2,847,997
Prior year adjustments	3,100,951	(143,804)
Advance income tax paid	(3,640,625)	(2,869,500)
At the end of the year	2,462,011	(531,421)

Status of assessments

The Company has finalized its zakat and tax assessments proceedings up to the year ended 31 December 2008.

The Company has received an assessment for the year ended 31 December 2009 and 2010, requesting for additional tax and Zakat liability, amounting to SR 1.72 million and SR 4.5 million respectively. The Company has partially agreed with the General Authority of Zakat and Tax ("GAZT") and settled an amount of SR 0.04 million for 2009 and SR 2,815 for 2010. The Company raised an objection on the additional zakat amount of SR 1.68 million for 2009 and SR 4.5 million for 2010. The GAZT rejected the Company's objection for both the years and the Company raised an appeal to the Preliminary Appeal Committee (PAC). In 2014, the PAC rejected the Company's appeal and the Company raised the appeal to the Higher Appeal Committee (HAC).

HAC has partially decided the case in favour of the Company by allowing deduction of finance leased investments up to the non-current portion of investment in finance leases. Upon request of the Company, the GAZT issued revised assessment based on HAC decision. While the GAZT allowed deduction of long-term portion of the net investment in finance lease, the GAZT also added short-term borrowings (equal to the amount of long-term portion of the net investment in finance leases). The Company filed objection against the revised assessment with the GAZT response on which is still awaited. At the same time, the Company raised their concern on the revised assessment with the Minister of Finance.

The Company has received assessments for the years ended 31 December 2011 and 31 December 2012 requesting for additional tax and Zakat liability. The Company is not satisfied with the assessments and have raised objections with the GAZT for these years which are under review by the GAZT.

The main difference between the GAZT's assessments and the Company's zakat returns is that the Company had added the loans (due to banks) to the Zakat base and deducted the net investment in finance leases, whereas the GAZT in its assessment did not add the loans (due to banks) and did not deduct the net investment in finance leases.

Zakat returns for the years ended 31 December 2013, 2014, 2015 and 2016 have been filed and are currently under review by the GAZT.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2017

21 REVENUES

	2017	2016
	SR	SR
Earned lease income (see note 6 and note 'a' below)	154,483,478	209,033,338
Net income from finance lease receivables sold to the banks (see note 25)	16,606,145	35,919,676
Income from murbaha financing	658,495	-
	<u>171,748,118</u>	<u>244,953,014</u>

a. Earned lease income is net of the insurance expense of SR 25.3 million (2016: SR 26.7 million)

22 GENERAL AND ADMINISTRATIVE EXPENSES

	2017	2016
	SR	SR
Salaries and other employees benefits	43,479,169	51,457,913
Rent (see note 26)	3,437,861	3,578,209
Consultancy charges	2,469,166	3,155,971
Communication	929,442	925,604
Others	5,757,878	6,210,636
	<u>56,073,516</u>	<u>65,328,333</u>

23 FINANCIAL CHARGES

	2017	2016
	SR	SR
Financial charges on short term loans (note 19)	50,253,346	55,520,447
Bank charges	2,521,318	661,451
	<u>52,774,664</u>	<u>56,181,898</u>

24 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Risk is inherent in the Company's activities but it 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 achieving profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities. The Company is exposed to market risk, credit risk, and liquidity risk.

24.1 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices. Market risk comprises three types of risk: commission rate risk, currency risk and equity price risk.

Commission rate risk

Commission rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market commission rates. As at 31 December 2017 and 31 December 2016, the Company is not exposed to significant commission rate risk as its special commission bearing assets and liabilities carry fixed rates.

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.

AJIL Financial Services Company
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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2017

24 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

24.1 Market risk (continued)

Equity 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.

24.2 Credit risk

Credit risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. The Company seeks to manage its credit risk with respect to customers by setting credit limits for individual customers, taking credit approvals, obtaining collaterals and by monitoring outstanding receivables. Additionally, the Company retains the ownership of the leased assets as a guarantee until the full payment by customers. Further, the leased assets are also insured against the future losses.

The Company has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties. These procedures are based on the Company's internal guidelines. The credit quality review process aims to allow the Company to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

The Company manages the credit quality by ensuring that adequate collaterals are available for all the finance leases, which the management reviews on a regular basis.

For credit risk arising from financial assets of the Company, including net investment in finance lease receivables, sold lease receivables – under securitization and agency arrangements (to the extent of margin deposits or guarantee amount – note 6) and other assets, the Company's exposure arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments, where adequate collateral has not been obtained.

24.3 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial liabilities. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. The Company manages its liquidity risk by ensuring that adequate bank facilities are available to meet any commitments, as they arise.

The table below summarises the maturities of the Company's undiscounted financial liabilities at 31 December 2017, based on contractual payment dates:

2017	<i>Less than 3 months SR</i>	<i>3 to 12 months SR</i>	<i>No fixed maturity SR</i>	<i>Total SR</i>
Trade and other payables	38,009,238	25,339,491	-	63,348,729
Due to related parties	2,865,522	-	-	2,865,522
Short term loans	538,779,050	428,998,030	-	967,777,080
Employees' terminal benefits	-	-	14,564,858	14,564,858
Total	579,653,810	454,337,521	14,564,858	1,048,556,189
2016	<i>Less than 3 months SR</i>	<i>3 to 12 months SR</i>	<i>No fixed maturity SR</i>	<i>Total SR</i>
Trade and other payables	17,714,006	23,233,252	-	40,947,258
Due to related parties	23,918,344	-	-	23,918,344
Short term loans	709,983,666	754,738,149	-	1,464,721,815
Employees' terminal benefits	-	-	15,025,304	15,025,304
Total	751,616,016	777,971,401	15,025,304	1,544,612,721

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2017

24 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

24.4 Capital Management

The primary objectives of the Company's capital management are to safeguard its ability to continue as a going concern, maintain healthy capital ratios in order to support its business and to provide an optimal return to its shareholders.

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. SAMA requires Finance Companies engaged in financing other than real estate, to maintain aggregate financing to capital ratio of three times.

	2017	2016
Aggregate financing to capital ratio	1.93 times	2.49 times
(Net investment in finance lease divided by total equity)		

25 FINANCE LEASE RECEIVABLES – SECURITIZATION AND AGENCY AGREEMENTS

In accordance with the terms of certain securitization and agency agreements, the Company has sold finance lease receivables to the banks.

The Company continues to manage these off statement of financial position finance lease receivables as a servicer in accordance with the securitization and agency agreements entered into with the banks (refer note 6). The Company is continuing to manage these sold receivables for an agreed fee which is disclosed as revenue (note 21). These receivables are secured by promissory notes from the customers.

The outstanding position of such off statement of financial position finance lease receivables is as follows:

	2017	2016
	SR	SR
Balance of outstanding finance lease receivables relating to securitization	254,476,577	486,978,082

The maturity analysis of above outstanding finance lease receivables is as follows:

31 December 2017	Up to 1 year	More than 1 year
	SR	SR
Securitization agreements	196,131,457	58,345,120
31 December 2016	Up to 1 year	More than 1 year
	SR	SR
Securitization agreements	393,186,598	93,791,484

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At 31 December 2017

25 FINANCE LEASE RECEIVABLES – SECURITIZATION AND AGENCY AGREEMENTS (continued)

	2017 SR	2016 SR
Overdue accounts settled to the banks	-	58,380,800
Gain recognized during the year against off-statement of financial position finance lease receivables (at the date of transfer / sale of finance lease receivables)	3,029,965	123,224

26 PREMISES RENT UNDER OPERATING LEASE ARRANGEMENTS

	2017 SR	2016 SR
Payments under operating leases recognized as an expense during the year (see note 22)	3,437,861	3,578,209

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.

27 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial assets consist of cash and bank balances, net investment in finance leases, margin deposits, net servicing assets for sold finance lease receivables and other receivables, its financial liabilities consist of trade payables, short term loans, due to related parties and other liabilities.

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

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

28 CONTINGENCIES AND COMMITMENTS

The Company has the following contingent liabilities and commitments:

	2017 SR	2016 SR
Letters of guarantee issued in favor of GAZT	6,187,731	6,187,731
Letters of guarantee issued in favor of banks	-	31,425,236
	6,187,731	37,612,967

There were no outstanding letters of credit or commitments at 31 December 2017 and 31 December 2016.

29 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. The Company is in the process of assessing the impact of these new standards and interpretations on its financial statements.

IFRS 9 Financial Instruments

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, Information Technology (IT), Operations and other respective businesses to achieve a successful and robust implementation. The project is managed by the Chief Financial Officer and the Head of Risk Management.

Classification and measurement

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 comprises of cash and bank balances, net investment in finance lease, murabaha financing receivables, net, margin deposits, investment in available-for-sale instrument, due from related parties, 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, certain 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.

The Company's financial liabilities primarily consist of due to related parties, short term loans and trade payables and other liabilities. 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 cash and bank balances, net investment in finance lease, murabaha financing receivables, net, margin deposits, due from related parties, and other receivables, which are measured at amortised cost. The key inputs into the measurement of ECL are the term structure of the following variables:

- Loss Rate
- Exposure at Default (EAD)

29 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 9 Financial Instruments (continued)

The above parameters are generally derived from internally developed statistical models, other historical data and are adjusted for forward looking information.

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., inflation rates, oil prices and manufacturing purchasing managers' index) 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 3.5% to 4% in its total equity as 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 classified as loans and receivables and investments 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.

Caveat:

The estimated increase in shareholders' equity includes the impact of both balance sheet classification and measurement changes and the increase to credit impairment provisions compared to those applied at 31 December 2017 under IAS 39. The 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 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 on 1 January 2018.

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 recognised 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.

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. Early adoption is permitted.

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29 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

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 recognise a liability to pay rentals with a corresponding asset, and would separately recognise interest expense and amortisation. 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.

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. These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted.

IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in the opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. These amendments are effective for annual periods beginning on or after 1 January 2017 with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact.

30 RESTATEMENT/RECLASSIFICATION OF PRIOR PERIOD FIGURES

As set out in notes 2.1 and 3 (i), the Company has changed its accounting policy to recognize zakat and tax charge for the year to retained earnings. Previously, zakat and tax was charged to the statement of profit or loss. The change in the accounting policy for zakat and tax has the following impacts on the net profit for the year and line items of the statements of financial position and changes in equity:

Account	Amount/balance as previously reported for the year ended and as at 31 December 2016 SR	Effect of restatement SR	Amount/balance as restated for the year ended and as at 31 December 2016 SR
Zakat and income tax	7,905,957	(7,905,957)	-
Net profit for the period	43,986,825	7,905,957	51,892,782

31 BOARD OF DIRECTORS' APPROVAL

These financial statements were approved by the Board of Directors on 9 Jumada II 1439H (corresponding to 25 February 2018).