SAUDI FRANSI FOR FINANCE LEASING
(A Closed Joint Stock Company)
Financial Statements
For the year ended 31 December 2017
together with the
Independent Auditors' Report

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Independent auditors' report

To the Shareholders of
Saudi Fransi for Finance Leasing
(A Closed Joint Stock Company)
Riyadh, Kingdom of Saudi Arabia

Opinion

We have audited the financial statements of **Saudi Fransi for Finance Leasing** ("the Company"), which comprise the statement of financial position as at 31 December 2017, the statements of profit or loss, comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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 ("IFRS") as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the professional code of conduct and ethics that are 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 Management and Those Charged with Governance for the Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in 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 that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement and maintain professional scepticism 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.
- 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 management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditors' 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 auditors' 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 of **Saudi Fransi for Finance Leasing** ("the Company").

For KPMG Al Fozan & Partners
Certified Public Accountants

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KPMG
Certified Public Accountants
KPMG Al Fozan & Partners

Abdullah Hamad Al Fozan
License No: 348

Date: 25 Jumada'II 1439H
Corresponding to: 13 March 2018

SAUDI FRANSI FOR FINANCE LEASING
(A Closed Joint Stock Company)
STATEMENT OF FINANCIAL POSITION
As at 31 December 2017
(Saudi Arabian Riyals)

	Notes	31 December 2017	31 December 2016
ASSETS			
Non-current assets			
Property and equipment	4	**436,713**	553,159
Intangible assets	5	**333,950**	370,570
Net investment in finance leases	6	**1,807,071,273**	1,583,802,921
		1,807,841,936	1,584,726,650
Current assets			
Current maturity of net investment in finance leases	6	**709,521,210**	554,940,303
Due from a related party	11	**177,096**	123,904
Advances, prepayments and other receivables	7	**39,061,833**	31,072,482
Cash and cash equivalents	8	**74,345,211**	26,527,116
		823,105,350	612,663,805
Total assets		**2,630,947,286**	2,197,390,455
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	15	**500,000,000**	500,000,000
Statutory reserve	16	**13,788,128**	7,160,730
Cash flow hedge reserve	12	**(8,886,436)**	(220,140)
Retained earnings		**102,840,944**	50,590,473
Total shareholders' equity		**607,742,636**	557,531,063
Liabilities			
Non-current liabilities			
Long-term loan	9	**1,255,000,000**	1,240,000,000
Employees' end of service benefits		**873,846**	509,907
		1,255,873,846	1,240,509,907
Current liabilities			
Current maturity of long-term loan	9	**650,250,874**	319,600,163
Accounts payable	10	**26,657,721**	25,447,072
Advance from customers		**44,121,874**	26,041,774
Due to related parties	11	**18,221,749**	10,993,528
Unearned income from dealer		**7,587,967**	5,242,316
Derivative liability	12	**8,886,436**	220,140
Accrued expenses and other liabilities	13	**8,034,747**	4,985,693
Provision for zakat and income tax	14	**3,569,436**	6,818,799
		767,330,804	399,349,485
Total liabilities		**2,023,204,650**	1,639,859,392
Total shareholders' equity and liabilities		**2,630,947,286**	2,197,390,455

The accompanying notes (1) through (27) form an integral part of these financial statements.

SAUDI FRANSI FOR FINANCE LEASING
(A Closed Joint Stock Company)
STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2017
(Saudi Arabian Riyals)

	Notes	**For the year ended 31 December 2017**	For the period from 1 November 2015 to 31 December 2016
Income from operations			
Lease finance income		**143,124,444**	122,042,033
Fee income, net	*17*	**42,444,454**	29,355,923
		185,568,898	151,397,956
Operating expenses			
Salaries and employee related expenses		**(29,288,831)**	(23,427,170)
Rent		**(414,812)**	(470,614)
Depreciation	*4*	**(170,446)**	(247,886)
Amortization	*5*	**(330,058)**	(573,635)
General and administration expenses	*18*	**(4,757,982)**	(3,681,432)
Financial charges		**(56,104,257)**	(43,501,355)
Provision for credit impairment losses	*6*	**(31,843,126)**	(32,704,155)
		(122,909,512)	(104,606,247)
Operating income		**62,659,386**	46,791,709
Other income		**3,614,591**	2,639,943
Net income for the year / period		**66,273,977**	49,431,652
Earnings per share - basic and diluted	*22*	**1.33**	0.99

The accompanying notes (1) through (27) form an integral part of these financial statements.

SAUDI FRANSI FOR FINANCE LEASING
(A Closed Joint Stock Company)
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2017
(Saudi Arabian Riyals)

	Note	**For the year ended 31 December 2017**	For the period from 1 November 2015 to 31 December 2016
Net income for the year / period		**66,273,977**	49,431,652
Other comprehensive income *Items that are or may be reclassified subsequently to profit or loss:*			
Cash flow hedges – effective portion of changes in fair value	*12*	**(8,666,296)**	(6,220,553)
Total comprehensive income for the year / period		**57,607,681**	43,211,099

The accompanying notes (1) through (27) form an integral part of these financial statements.

SAUDI FRANSI FOR FINANCE LEASING
(A Closed Joint Stock Company)
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended 31 December 2017
(Saudi Arabian Riyals)

For the year ended 31 December 2017	**Share capital**	**Statutory reserve**	**Cash flow hedge reserve**	**Retained earnings**	**Total**
Balance as at 1 January 2017	**500,000,000**	**7,160,730**	**(220,140)**	**50,590,473**	**557,531,063**
Net income for the year	**--**	**--**	**--**	**66,273,977**	**66,273,977**
Transfer to statutory reserve	**--**	**6,627,398**	**--**	**(6,627,398)**	**--**
Cash flow hedge reserve	**--**	**--**	**(8,666,296)**	**--**	**(8,666,296)**
Zakat and income tax for the year	**--**	**--**	**--**	**(7,396,108)**	**(7,396,108)**
Balance as at 31 December 2017	**500,000,000**	**13,788,128**	**(8,886,436)**	**102,840,944**	**607,742,636**

For the period from 1 November 2015 to 31 December 2016	Share Capital	Statutory reserve	Cash flow hedge reserve	Retained earnings	Total
Transferred on 1 November 2015 (refer note 1)	100,000,000	2,217,565	6,000,413	12,918,957	121,136,935
Increase in paid up capital	400,000,000				400,000,000
Net income for the period	--	--	--	49,431,652	49,431,652
Transfer to statutory reserve	--	4,943,165	--	(4,943,165)	--
Cash flow hedge reserve	--	--	(6,220,553)	--	(6,220,553)
Zakat and income tax for the period	--	--	--	(6,816,971)	(6,816,971)
Balance as at 31 December 2016	500,000,000	7,160,730	(220,140)	50,590,473	557,531,063

The accompanying notes (1) through (27) form an integral part of these financial statements.

SAUDI FRANSI FOR FINANCE LEASING
(A Closed Joint Stock Company)
STATEMENT OF CASH FLOWS
For the year ended 31 December 2017
(Saudi Arabian Riyals)

	Notes	**For the year ended 31 December 2017**	For the period from 1 November 2015 to 31 December 2016
Cash flows from operating activities			
Net income for the year / period		**66,273,977**	49,431,652
Adjustments to reconcile net income to net cash used in operating activities			
Depreciation	*4*	**170,446**	247,886
Amortization	*5*	**330,058**	573,635
Provision for impairment in finance lease		**31,843,126**	32,704,155
Employees' end of service benefits		**369,376**	333,967
Financial charges		**56,104,257**	43,501,355
Operating income before changes in operating assets and liabilities		**155,091,240**	126,792,650
Net (increase) / decrease in operating assets			
Net investment in finance leases		**(409,692,385)**	(1,162,354,603)
Advances, prepayments and other receivables		**(7,989,351)**	(11,348,501)
Due from a related party		**(53,192)**	1,041,339
Net increase / (decrease) in operating liabilities			
Accounts payable		**1,210,649**	11,016,146
Due to related parties		**7,228,221**	1,553,512
Advance from customers		**18,080,100**	17,911,680
Unearned income from dealer		**2,345,651**	5,242,317
Accrued expenses and other liabilities		**3,049,054**	(1,573,842)
Zakat and income tax paid during the year / period	*14*	**(10,645,471)**	(2,165,577)
Employees' end of service benefits paid during the year / period		**(5,437)**	(36,072)
Net cash used in operating activities		**(241,380,921)**	(1,013,920,951)
Cash flows from investing activities			
Purchase of intangibles	*5*	**(293,438)**	--
Purchase of property and equipment	*4*	**(54,000)**	(211,513)
Net cash used in investing activities		**(347,438)**	(211,513)
Cash flows from financing activities			
Long-term loans drawn		**355,000,000**	672,500,000
Issue of share capital		**--**	400,000,000
Financial charges paid		**(65,453,546)**	(33,901,192)
Net cash generated from financing activities		**289,546,454**	1,038,598,808
Net increase in cash and cash equivalents		**47,818,095**	24,466,344
Cash and cash equivalents at the beginning of the year / period		**26,527,116**	2,060,772
Cash and cash equivalents at the end of the year / period	*8*	**74,345,211**	26,527,116

The accompanying notes (1) through (27) form an integral part of these financial statements.

1. THE COMPANY AND NATURE OF OPERATIONS

Saudi Fransi for Finance Leasing (the "Company") is a Closed Joint Stock Company ("CJSC") established under the Regulations for Companies in the Kingdom of Saudi Arabia. The Company operates under Commercial Registration No. 1010320273 dated 25 Dhul Hijjah 1432H (corresponding to 21 November 2011).

As per Saudi Arabian Monetary Authority ("SAMA") directive, the Company obtained a license no. 201511/ 38/أش to practice finance activities. Further, pursuant to ministerial resolution in respect of the conversion of Limited Liability Company ("LLC"), the Company changed its legal status from a LLC to a CJSC on 1 November 2015. All assets and liabilities of the LLC were transferred to CJSC at book value of LLC as of 31 Oct 2015. Accordingly, the comparative information included in these financial statements is for the period from 1 November 2015 to 31 December 2016.

The Company's head office is located in Riyadh at the following address:

Saudi Fransi for Finance Leasing
Prince Abdulaziz Ibn Musaid Ibn Jalawi Road
P.O. Box 56006,
Riyadh 11554
Kingdom of Saudi Arabia

The objective of the Company is to provide lease financing for assets.

2. BASIS OF PREPARATION

a) Statement of compliance

The financial statements of the Company have been prepared:

i) in accordance with 'International Financial Reporting Standards ("IFRS") as modified by the Saudi Arabian Monetary Authority ("SAMA") for the 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. As per the SAMA Circular no. 381000074519 dated 11 April 2017 and subsequent amendments through certain clarifications relating to the accounting for zakat and income tax ("SAMA Circular"), the zakat and income tax are to be accrued on a quarterly basis through shareholders equity under retained earnings.
ii) in compliance with the provisions of the Regulations for Companies in the Kingdom of Saudi Arabia and the By-laws of the Company.

The Company's accounting policy for zakat and tax was consistent with the SAMA's circular and subsequent adjustments through certain clarifications. Hence, there is no impact on the financial statements of the Company.

b) Basis of measurement

These financial statements have been prepared under the historical cost convention except for commission rate swaps, which are measured at fair value, and the going concern concept.

2. BASIS OF PREPARATION *(Continued)*

c) Functional and presentation currency

Items included in these financial statements are measured using the currency of the primary economic environment in which the Company operates. These financial statements are presented in Saudi Arabian Riyals ("SAR") which is the Company's functional and presentation currency. All financial information presented in SAR has been rounded to the nearest SAR.

d) Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards, requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The area involving significant estimates or judgements is allowance for potential credit impairment losses [refer note 3(p) and 6];

e) New standards, amendments to standards and interpretations – effective during the year

The following amendments are applicable for annual periods beginning on or after 1 January 2017:

- Amendments to IASs'- "Disclosure Initiative"

- Amendments to IAS 7 – "Statement of Cash Flows". The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash change.

These amendments do not have any significant impact on these financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the financial statements are set out below. Except for the change in accounting policies resulting from amendments to existing standards, as detailed in note 2 (e) above, the accounting policies adopted in the preparation of these financial statements have been consistently applied.

a) Cash and cash equivalents

Cash and cash equivalents comprise of cash in hand and with bank.

b) Net investment in finance leases

Net investment in finance lease represents leasing contracts which are receivable from customers on account of finance leases. Leases in which the Company transfers substantially all the risks and rewards incidental to the ownership of an asset to the lessees at the end of the contract are classified as finance leases. Net investment in finance leases are recorded at the inception of the lease at the lower of the fair value of the leased asset or the present value of the minimum lease payments.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Net investment in finance leases(Continued)

All leased assets are under the Company's name, and the contract signed with customer represents Ijarah contract with irrevocable promise to transfer the ownership, where the legal title of the asset will be passed to the lessee once all Ijarah instalments are settled. Based on the criteria as laid out in IAS 17, these contracts meet the definition of a finance lease, even though the legal ownership of these underlying properties is not transferred as of the reporting date.

Gross investment in finance leases include the total of future lease payments on finance leases (lease receivables), plus estimated residual amounts receivable. The difference between the lease receivables and the cost of the leased asset is recorded as unearned lease income and for presentation purposes, is deducted from the gross investment in finance leases.

c) Property and equipment

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

Subsequent costs are included in the asset's carrying amount 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 entity and the cost of the item can be measured reliably. Cost incurred to replace a component of an item of property and equipment is capitalised and the asset so replaced is retired from use. All other repairs and maintenance expenditures are charged to the statement of profit or loss during the period in which they are incurred.

Depreciation is charged to statement of profit or loss using the straight-line method over the estimated useful lives of the assets as follows:

	Years
Leasehold improvements	10
Furniture and fixtures	10
Equipment	7
Computer hardware	4
Motor vehicles	4

d) Intangible assets

Intangible assets that are acquired by the Company have finite useful lives and are measured at cost less accumulated amortisation and impairment, if any.

These are amortised on a straight-line basis in statement of profit or loss over their estimated useful lives from the date that they are available for use.

The intangible assets comprise of computer softwares and their estimated useful life is 3 years.

e) Employees' end of service benefits

Benefits payable to the employees of the Company at the end of their services are accrued based on actuarial valuation taking into account the provision of the Saudi Arabian Labour Law.

f) Zakat and income tax

Zakat and income tax are computed in accordance with Saudi Arabia Tax and Zakat regulations. They are accrued on a quarterly basis and charged to retained earnings in accordance with SAMA guidelines on zakat and income tax.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Revenue recognition

The Company follows the effective yield method in accounting for the recognition of lease finance income. Under this method, the unearned lease income i.e. the excess of aggregate lease rentals and the estimated residual value over the cost of the leased assets is deferred and taken to income over the term of the lease, so as to produce a systematic return on the net investment in lease.

Processing fees received upfront are recognised over the financing period as per the effective yield on financial assets.

Dealer discount is recognized in the statement of profit or loss over the lease term.

h) Long-term loan

Long-term loan includes special commission bearing borrowing which is recognized initially at fair value. Subsequent to the initial recognition, special commission bearing borrowings are stated at amortized cost with any difference between cost (including transaction cost) and redemption value being recognized in the statement of profit or loss over the period of the borrowing on an effective special commission rate basis.

i) Financial instruments

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

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

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

Financial assets
Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. Management determines the classification of the financial asset at the time of initial recognition.

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

For purposes of subsequent measurement financial assets are classified in four categories:
- Financial assets at fair value through profit or loss
- Loans and receivables
- Held-to-maturity investments
- Available-for-sale financial assets

The Company has not designated any financial assets at fair value through profit or loss, held-to-maturity and available-for-sale financial assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Financial instruments (Continued)

Loans and receivables

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

Financial liabilities

The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value. The Company's financial liabilities include account payable, accrued expenses and other liabilities, due to related parties, employees' end of service benefits, long-term loan, financial guarantee contracts, if any, and derivative financial instruments.

Gains & losses are recognized in the statement of profit or loss when the liabilities are derecognized.

Derecognition of financial liability

A financial liability (or a part of a financial liability) can only be derecognised when it is extinguished, that is when the obligation specified in the contract is either discharged, cancelled or expires.

j) 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 between market participants at the measurement date.

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 are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

k) Regular way contracts

Regular way purchases or sales of financial assets are those, the contract which requires delivery of assets within the timeframe generally established by regulation or convention in the market. All "regular way" purchases and sales of financial assets are recognised on the settlement date, i.e. the date on which the asset is delivered to or by the Company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l) Offsetting

Financial assets and liabilities are offset and are reported net in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and when the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

m) Provisions

Provisions are recognized when the Company has a legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each statement of financial position date and are adjusted to reflect the current best estimate.

n) Hedge accounting

The Company designates certain derivatives (i.e comission rate swaps) as hedging instruments in qualifying hedging relationships to manage exposures to commission rate. In order to manage particular risk, the Company applies hedge accounting for transactions that meet specific criteria.

Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from the changes in the fair value of derivatives are taken directly to the statement of profit or loss, except for the effective portion of cash flow hedges, which is recognised in the statement of changes in shareholders' equity.

For the purpose of cash flow hedge which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability, or to a highly probable forecasted transaction that will affect the reported net gain or loss.

In order to qualify for hedge accounting, the hedge should be expected to be highly effective i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item, and should be reliably measurable. At inception of the hedge, the risk management objective and strategy is documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Company will assess the effectiveness of the hedging relationship. At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting. A formal assessment is undertaken by comparing the hedging instrument's effectiveness in offsetting the changes in fair value or cash flows attributable to the hedged risk in the hedged item, both at inception and at each quarter end on an ongoing basis. Prospective testing is performed mainly through matching the critical terms of both hedge item and instrument. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated were offset by the hedging instrument in a range of 80% to 125% and were expected to achieve such offset in future periods. Hedge ineffectiveness, if any, is recognized in the statement of profit or loss.

Hedge accounting is discontinued when the hedging instrument is expired or sold, terminated or exercised, or no longer qualifies for hedge accounting, or the forecast transaction is no longer expected to occur or the Company revokes the designation then hedge accounting is discontinued prospectively.

At that point of time, any cumulative gain or loss on the cash flow hedging instrument that was recognised in shareholders' equity is transferred to the statement of profit or loss for the period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o) Proposed dividend and transfer between reserves

Dividends and appropriations to reserves, except appropriations which are required by law, made subsequent to the statement of financial position date are considered as non-adjusting events and are recorded in the financial statements in the year in which they are approved / transfers are made.

p) Impairment

Financial assets:
An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be impaired.

Objective evidence whether the financial assets are impaired includes:
- default or delinquency by a lessee restricting of an amount due to the Company on terms that the Company would not consider otherwise;
- indications that the party from whom an amount is due to the Company will enter bankruptcy;
- adverse changes in payment status of the lessee; or
- observable data indicating that there is a measurable decrease in the expected cash flows from a group of financial assets.

If such evidence exists, an impairment loss is recognised in the statement of profit or loss. Impairment is determined as follows:

(i) 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;
(ii) 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 yield rate.

In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows 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 individually significant lease receivables, the Company also makes a collective impairment provision against lease receivables which although not specifically identified as requiring a specific provision have a greater risk of default than when originally granted.

Non-financial assets:
An assessment is made at each reporting date to determine whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's, or cash-generating units (CGU), fair value less cost to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

4. PROPERTY AND EQUIPMENT

Movement in the property and equipment during the year is as follows:

For the year ended 31 December 2017	**Lease hold improvements**	**Furniture and fixtures**	**Equipment**	**Motor vehicles**	**Computer hardware**	**Total**
Cost:						
Balance at beginning of the year	**8,000**	**28,696**	**460,203**	**356,000**	**533,604**	**1,386,503**
Additions	**--**	**54,000**	**--**	**--**	**--**	**54,000**
Balance at the end of the year	**8,000**	**82,696**	**460,203**	**356,000**	**533,604**	**1,440,503**
Accumulated depreciation:						
Balance at beginning of the year	**3,006**	**12,687**	**141,009**	**149,496**	**527,146**	**833,344**
Charge for the year	**800**	**5,183**	**69,030**	**89,000**	**6,433**	**170,446**
Balance at the end of the year	**3,806**	**17,870**	**210,039**	**238,496**	**533,579**	**1,003,790**
Net book value at 31 December 2017	**4,194**	**64,826**	**250,164**	**117,504**	**25**	**436,713**

For the period ended 31 December 2016	Lease hold improvements	Furniture and fixtures	Equipment	Motor Vehicles	Computer hardware	Total
Cost:						
Balance at beginning of the period	8,000	28,696	308,691	296,000	533,604	1,174,991
Additions	--	--	151,512	60,000	--	211,512
Balance at the end of the period	8,000	28,696	460,203	356,000	533,604	1,386,503
Accumulated depreciation:						
Balance at beginning of the period	2,069	9,331	73,997	50,351	449,710	585,458
Charge for the period	937	3,356	67,012	99,145	77,436	247,886
Balance at the end of the period	3,006	12,687	141,009	149,496	527,146	833,344
Net book value at 31 December 2016	4,994	16,009	319,194	206,504	6,458	553,159

5. INTANGIBLE ASSETS

	31 December 2017	31 December 2016
Cost:		
Balance at beginning of the year / period	**4,253,381**	4,253,381
Addition	**293,438**	--
Balance at end of the year / period	**4,546,819**	4,253,381
Accumulated amortization:		
Balance at beginning of the year / period	**3,882,811**	3,309,176
Addition	**330,058**	573,635
Balance at end of the year / period	**4,212,869**	3,882,811
Net book value at end of the year / period	**333,950**	370,570

6. NET INVESTMENT IN FINANCE LEASES

		31 December 2017		
		Not later than one year	**Later than one year and less than five years**	**Total**
Lease contract receivables		**943,781,893**	**2,405,547,624**	**3,349,329,517**
Unearned lease income		**(212,362,493)**	**(543,913,685)**	**(756,276,178)**
		731,419,400	**1,861,633,939**	**2,593,053,339**
Provision for credit impairment losses	*6.1*	**(21,898,190)**	**(54,562,666)**	**(76,460,856)**
Net investment in finance leases		**709,521,210**	**1,807,071,273**	**2,516,592,483**

These leased assets carry profit rates ranging from 3% to 7% per annum (31 December 2016: 3% to 7% per annum) and lease rentals are determined on the basis of implicit rate of profit based on the cash flows of the lease. The Company holds the title of the leased assets as a collateral against the finance leases.

		31 December 2016		
		Not later than one year	Later than one year and less than five years	Total
Lease contract receivables		740,897,922	2,119,302,953	2,860,200,875
Unearned lease income		(174,239,462)	(502,600,459)	(676,839,921)
		566,658,460	1,616,702,494	2,183,360,954
Provision for credit impairment losses	*6.1*	(11,718,157)	(32,899,573)	(44,617,730)
Net investment in finance leases		554,940,303	1,583,802,921	2,138,743,224

6.1 The movement in the provision for credit impairment losses was as follows:

	For the year ended 31 December 2017	For the period from 1 November 2015 to 31 December 2016
Balance transferred from LLC	**--**	11,913,575
Balance as at 1 January 2017	**44,617,730**	--
Charge for the year / period	**31,843,126**	32,704,155
	76,460,856	44,617,730

The provision for credit impairment losses as at year-end includes SAR 34.059 million (31 December 2016: SAR 25.27 million) determined on a collective impairment basis.

7. ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES

	Note	**31 December 2017**	31 December 2016
Prepaid insurance		**36,848,125**	29,873,922
Prepaid rent		**172,919**	167,425
Dealer receivable		**1,053,009**	633,532
Advance for purchase of investment	*7.1*	**892,850**	--
Other receivables		**94,930**	397,603
		39,061,833	31,072,482

7.1 As part of establishing the Saudi Contract Registration Company, SAMA has directed all finance leasing companies to be part of the consortium by contributing equally to the shareholding. Accordingly, the Company has paid SAR 892,850 for 89,285 shares of SR 10 each. As at 31 December 2017, these shares were not issued.

8. CASH AND CASH EQUIVALENTS

	31 December 2017	31 December 2016
Cash in hand	**2,500**	2,500
Cash at bank - current accounts	**74,342,711**	26,524,616
	74,345,211	26,527,116

9. LONG-TERM LOAN

The Company has a shariah compliant loan facility “Al Tawarroq” with a limit of SAR 2,500 million from its parent, Banque Saudi Fransi (“BSF”).

As at 31 December 2017, the Company has utilized SAR 1,905 million (31 December 2016: 1,550 million) from the above facility as follows:

	31 December 2017	31 December 2016
Current	**650,250,874**	319,600,163
Non-current	**1,255,000,000**	1,240,000,000
	1,905,250,874	1,559,600,163

The long-term loan carry special commission rate equal to SIBOR plus bank margins payable on quarterly basis. The Directors of the Company have provided to the Bank promissory notes as a collateral against this facility.

10. ACCOUNTS PAYABLE

	31 December 2017	31 December 2016
Dealers payable	**6,352,460**	14,298,107
Commission payable	**4,489,687**	3,444,696
Third party insurance collected	**12,288,749**	5,660,210
Government fee payable	**1,105,669**	932,921
Customer verification expense payable	**2,320,402**	1,069,322
Others	**100,754**	41,816
	26,657,721	25,447,072

11. ACCOUNTS PAYABLE

	31 December 2017	31 December 2016
Dealers payable	**6,352,460**	14,298,107
Commission payable	**4,489,687**	3,444,696
Third party insurance collected	**12,288,749**	5,660,210
Government fee payable	**1,105,669**	932,921
Customer verification expense payable	**2,320,402**	1,069,322
Others	**100,754**	41,816
	26,657,721	25,447,072

12. RELATED PARTY TRANSACTIONS

Related parties of the Company comprise of BSF and its affiliated companies and certain key management personnel. The Company transacts with its related parties in the ordinary course of business. The transactions with related parties are undertaken at mutually agreed terms.

In addition to the related party transactions and balances disclosed elsewhere in these financial statements, significant transactions and balances arising from transactions with related parties are as follows:

a) Transactions with related parties

Nature of transactions	***Related parties***	**For the year ended 31 December 2017**	For the period from 1 November 2015 to 31 December 2016
Lease rental collected	- Sofinco Saudi Fransi (Affiliated company)	**764,687**	1,943,100
	- BSF	**391,184**	2,623,010
IT maintenance and network related expenses	BSF	**150,000**	175,000
Other income	BSF	**540,000**	630,000
Financial charges on long-term loan and commission rate swaps	BSF	**54,744,140**	42,749,620
Bank charges	BSF	**1,360,117**	751,735
Insurance expense of leased assets	Allianz Saudi Fransi (Affiliated company)	**104,307,031**	70,757,404
Salaries and employee related expenses	BSF	**8,570,842**	3,088,181
Finance leases disbursed	BSF	**1,524,980**	2,791,538

Certain expenses paid by BSF on behalf of the Company were not charged by BSF to the Company. These expenses include salary compensation of CEO and provision of rent free premises.

11. RELATED PARTY TRANSACTIONS (CONTINUED)

The above transactions mainly resulted in following balances:

b) Due to related parties (excluding term loan) :	**31 December 2017**	31 December 2016
Banque Saudi Fransi	**11,826,485**	5,170,257
Allianz Saudi Fransi	**6,395,264**	5,823,271
	18,221,749	10,993,528

c) Due from a related party:	**31 December 2017**	31 December 2016
Sofinco Saudi Fransi	**177,096**	123,904

The details of the other balances with related parties are as below:

d) Other balances with a related party:		**31 December 2017**	31 December 2016
Nature of balances	***Related party***		
Bank balances	Banque Saudi Fransi	**74,342,711**	26,524,616
Long-term loan	Banque Saudi Fransi	**1,905,250,874**	1,559,600,163

As at 31 December 2017, the Company had 39 lease contracts (31 December 2016: 46) with BSF with an aggregate outstanding principal amounting to SAR 3.821 million (31 December 2016: SAR 4.904 million).

12. DERIVATIVE LIABILITY

	31 December 2017			
Derivative financial instruments Held for cash flow hedging	**Notional amount**			
	Within 3 months	**3-12 months**	**1-5 year**	**Total**
Commission rate swaps	**112,500,000**	**382,500,000**	**1,345,000,000**	**1,840,000,000**

	31 December 2016			
Derivative financial instruments Held for cash flow hedging	**Notional amount**			
	Within 3 months	3-12 months	1-5 year	Total
Commission rate swaps	77,500,000	232,500,000	910,000,000	1,220,000,000

The Company entered into commission rate swaps with its parent, Banque Saudi Fransi. The net fair value of commission rate swaps is SAR 8,886,436[negative] as at 31 December 2017 (31 December 2016: SAR 220,140 [negative]). The net fair value of commission rate swaps is calculated using discounted cash flow model using a risk free discount rate adjusted for appropriate risk margin for counterparty risk including entity’s own credit risk.

13. ACCRUED EXPENSES AND OTHER LIABILITIES

	Note	**31 December 2017**	31 December 2016
Liabilities taken over from Sofinco Saudi Fransi	*13.1*	**2,767,316**	2,841,769
Legal and professional charges		**575,959**	558,239
Payable to service providers		**453,076**	75,088
Salaries and employee related expenses		**2,586,481**	1,100,715
Others		**1,651,915**	409,882
		8,034,747	4,985,693

13.1. The details of liabilities taken over from Sofinco Saudi Fransi, a related party on account of portfolio transfer of finance lease contracts to the Company, are as follows:

	31 December 2017	31 December 2016
Legal and professional charges	**1,324,416**	1,365,376
Salaries and employee related expenses	**--**	83,370
Advance from customer	**443,320**	523,320
Third party insurance	**180,342**	232,015
Others	**819,238**	637,688
	2,767,316	2,841,769

14. ZAKAT AND INCOME TAX

A) Zakat and income tax

	31 December 2017	31 December 2016
Adjusted taxable income	**103,410,564**	85,810,122
Zakat base	**(262,533,596)**	(1,933,220,452)
Total zakat base (greater of zakat base or adjusted taxable income)	**103,410,564**	85,810,122
Zakat base - Saudi shareholding	**75,920,027**	59,114,593
Zakat charge for the year / period	**1,898,001**	1,477,865
Tax base - Non-saudi shareholding	**27,490,537**	26,695,529
Tax charge for the year / period	**5,498,107**	5,339,106

14. ZAKAT AND INCOME TAX (CONTINUED)

B) Provision for zakat and income tax

The movement in the provision for zakat and income tax for the year / period ended 31 December is as follows:

Zakat

	31 December 2017	31 December 2016
Balance transferred from LLC	--	419,527
Balance as at 1 January 2017	**1,436,376**	--
Charge for the year / period	**1,898,001**	1,477,865
Payments made during the year / period	**(1,481,133)**	(461,016)
Balance as at 31 December	**1,853,244**	1,436,376

Income tax

	31 December 2017	31 December 2016
Balance transferred from LLC	--	1,747,878
Balance as at 1 January 2017	**5,382,423**	--
Charge for the year / period	**5,498,107**	5,339,106
Payments made during the year / period	**(9,164,338)**	(1,704,561)
Balance as at 31 December	**1,716,192**	5,382,423

C) Status of assessments

The Company has submitted its zakat and income tax returns for the years ended 31 December 2012 to 2016 to the General Authority of Zakat and Income Tax (“GAZT”), however, no assessment has been raised in respect for these years.

15. SHARE CAPITAL

The authorised, issued and paid-up share capital of the Company is SAR 500 million (31 December 2016: SAR 500 million) divided into 50 million (31 December 2016: 50 million) shares of SAR 10 (31 December 2016: SAR 10) each and 100% owned by Banque Saudi Fransi.

16. STATUTORY RESERVE

In accordance with the Company’s By-laws and the Regulation for Companies in Saudi Arabia, 10% of the annual net income after zakat and income tax, after absorption of accumulated losses, if any, is transferred to a statutory reserve until such reserve equals 50% of its share capital. This reserve is not available for distribution to the shareholder. During the year, the Company has transferred SR 6.6 million (2016: SR 4.9 million).

17. FEE INCOME, NET

	For the year ended 31 December 2017	For the period from 1 November 2015 to 31 December 2016
Processing fee	**10,639,926**	14,075,111
Insurance income	**148,042,030**	103,687,727
Others	**5,314,403**	5,006,114
	163,996,359	122,768,952
Less:		
Commission	**(10,401,758)**	(14,263,640)
Registration fee	**(6,079,535)**	(7,408,798)
Verification expenses	**(763,581)**	(983,187)
Insurance expenses	**(104,307,031)**	(70,757,404)
	(121,551,905)	(93,413,029)
	42,444,454	29,355,923

18. GENERAL AND ADMINISTRATION EXPENSES

	For the year ended 31 December 2017	For the period from 1 November 2015 to 31 December 2016
IT maintenance and network related expenses	**527,052**	574,738
Communication expenses	**279,811**	249,811
Legal and professional charges	**749,058**	608,500
General insurance expense	**150,000**	179,939
Collection staff commission	**2,000,000**	788,082
Printing and stationery	**169,628**	283,226
Consultancy fees	**293,238**	58,333
Traveling expenses	**83,247**	122,228
Repair and maintenance	**42,200**	218,464
Advertising and promotion expenses	**166,550**	237,158
Penalty paid to SAMA (refer note 18.1)	**235,000**	300,000
Other expenses	**62,198**	60,953
	4,757,982	3,681,432

18.1 The penalty paid during the year relates to certain non – compliance identified by SAMA.

19. FINANCIAL INSTRUMENTS

The Company has exposure to the following risks from its use of financial instruments:

a) Credit risk
b) Market risk
c) Liquidity risk

The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

Risk management is carried out under policies approved by the management. The management identifies, evaluates and hedges financial risks and has written principles for overall risk management covering specific areas, such as credit risk, liquidity risk and market risk.

a) Credit risk

Credit risk is the risk that one party to a financial instrument may fail to discharge an obligation and cause the other party to incur a financial loss. The Company is exposed to significant credit risk on bank balance, which is maintained with its parent, and net investment in finance leases. With respect to leases, the Company has established procedures to manage credit exposure including evaluation of lessees' credit worthiness, formal credit approvals and, assigning credit limits. Individual lease contracts are generally are for a period of two to five years.

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

The Company follows a credit classification mechanism as a tool to manage the quality of credit risk of the lease portfolio. The Company differentiates between performing and non-performing portfolios and allocates provisions accordingly. The Company grades individual customer into performing and non-performing categories, based both on subjective and time based criteria taking into consideration. Also, factors such as a customer's credit standing, financial strength and security and quality of management are considered. The Company monitors customers' grading on a regular basis.

Currently, the Company is entering lease finance with the individuals and corporates. The credit risk on gross amount due in relation to the investment in finance lease is mitigated by the retention of the title deed on leased assets.

Net investment in finance lease are receivable from retail customers & corporate customers. Credit ratings are not available for the lease contracts.

19. FINANCIAL INSTRUMENTS (CONTINUED)

a) *Credit risk* (Continued)

The table below shows the gross maximum exposure to credit risk for the components of the statement of financial position:

	31 December 2017	31 December 2016
Bank balances	**74,342,711**	26,524,616
Gross investment in finance lease	**2,593,053,339**	2,183,360,954
Dealer and other receivables	**1,147,939**	1,031,135
Advance for purchase of investment	**892,850**	--
Due from related party	**177,096**	123,904
	2,593,153,079	2,166,422,879

Gross investment in finance lease past due but not impaired

	31 December 2017	31 December 2016
Past due up to 30 days	**2,401,701,434**	2,026,748,362
Past due 31 – 60 days	**89,524,198**	84,009,186
Past due 61 – 90 days	**33,231,054**	31,325,775
	2,524,456,686	2,142,083,323

b) *Market risk - special commission rate risk*

Special commission rate risk is the uncertainty of future earnings resulting from fluctuations in special commission rates. The risk arises when there is a mismatch in assets and liabilities, which are subject to special commission rate adjustment within a specified period. The most important source of such rate is the Company's borrowing where fluctuations in special commission rates, if any, are reflected in the results of its operations. Management monitors the change in the special commission rate and believes that the net special commission rate risk to the Company is not significant, the sensitivity of which is disclosed below:-.

	Increase/ decrease in basis points	**Sensitivity of finance charges**	**Sensitivity of equity**		**Total**
			12 months or Less	**More than 12 Months**	
Al Tawarroq Financing Facilities	**+10**	**3,578,125**	**1,393,875**	**2,184,250**	**3,578,125**
	-10	**(3,578,125)**	**(1,393,875)**	**(2,184,250)**	**(3,578,125)**

19. FINANCIAL INSTRUMENTS (CONTINUED)

c) Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately.

Management monitors the maturity profile of the Company's assets and liabilities based on the remaining period at the statement of financial position date to the contractual maturity date to ensure that adequate liquidity is maintained. All liabilities other than end of service benefits and long-term loans are contractually payable on a current basis.

The table below summarizes the maturity profile of the Company’s financial liabilities based on contractual undiscounted repayment obligation. The contractual maturities of the liabilities have been determined based on the remaining period at the statement of financial position date to the contractual maturity date and do not take account of the effective expected maturities.

The maturity profile of the Company’s financial assets, liabilities, and shareholders’ equity is as follows:

	Within 3 months	3 to 12 months	1 to 5 years	No fixed maturity	Total
31 December 2017					
Assets					
Cash in hand and at banks	--	--	--	74,345,211	**74,345,211**
Net investment in finance leases	213,036,805	496,484,405	1,807,071,273	--	**2,516,592,483**
Other assets	1,147,939	--	--	--	**1,147,939**
	214,184,744	**496,484,405**	**1,807,071,273**	**74,345,211**	**2,592,085,633**
Liabilities and Shareholders’ equity					
Accounts payable	26,657,721	--	--	--	**26,657,721**
Accrued expenses and other liabilities	7,774,964	--	--	--	**7,774,964**
Due to related parties	--	18,221,749	--	--	**18,221,749**
Employees’ end of service benefits	--	--	--	873,846	**873,846**
Derivative liability	--	--	--	8,886,436	**8,886,436**
Long term loan	267,750,874	382,500,000	1,255,000,000	--	**1,905,250,874**
	302,183,559	**400,721,749**	**1,255,000,000**	**9,760,282**	**1,967,665,590**
Maturity gap	**(87,998,815)**	**95,762,656**	**552,071,273**	**64,584,929**	
Cumulative maturity gap	**(87,998,815)**	**7,763,841**	**559,835,114**		

19. FINANCIAL INSTRUMENTS (CONTINUED)

c) Liquidity risk (Continued)

The maturity profile of the Company's financial assets, liabilities, and shareholders' equity is as follows

	Within 3 months	3 to 12 months	1 to 5 years	No fixed maturity	Total
31 December 2016					
Assets					
Cash in hand and at banks	--	--	--	26,527,116	26,527,116
Net investment in finance leases	151,883,880	403,056,423	1,583,802,921	--	2,138,743,224
Other assets	1,031,135	--	--	--	1,031,135
	152,915,015	403,056,423	1,583,802,921	26,527,116	2,166,301,475
Liabilities and Shareholders' equity					
Accounts payable	14,298,106	11,148,966	--	--	25,447,072
Accrued expenses and other liabilities	4,663,429	--	--	--	4,663,429
Due to related parties	10,993,528	--	--	--	10,993,528
Employees' end of service benefits	--	--	--	509,907	509,907
Derivative liability	--	--	--	220,140	220,140
Long term loan	87,100,163	232,500,000	1,255,000,000	--	1,559,600,163
	117,055,226	243,648,966	1,255,000,000	730,047	1,616,434,239
Maturity gap	35,859,789	159,407,457	328,582,781	25,797,069	
Cumulative maturity gap	35,859,789	195,267,246	524,070,167		

20. GEOGRAPHICAL CONCENTRATION

The Company's operations are restricted to the Kingdom of Saudi Arabia only.

21. SEGMENT REPORTING

Operating segments are identified on the basis of internal reports about components of the Company that are regularly reviewed by the Company's Board of Directors in its function as chief decision maker in order to allocate resources to the segments and to assess their performance.

A segment is a distinguishable component that is engaged in providing products or services (a business segment), which is subject to risks and rewards that are different from those of other segments.

	Amount in SAR '000		
	Retail	**Corporate**	**Total**
31 December 2017			
Total assets	**2,577,546**	**53,401**	**2,630,947**
Total liabilities	**2,022,618**	**587**	**2,023,205**
Provision for credit impairment losses	**73,848**	**2,613**	**76,461**
Total operating income	**180,926**	**8,258**	**189,184**
Total operating expenses	**122,211**	**699**	**122,910**
Net income for the period	**58,715**	**7,559**	**66,274**

	Amount in SAR '000		
	Retail	Corporate	Total
31 December 2016			
Total assets	2,126,673	70,717	2,197,390
Total liabilities	1,637,647	1,024	1,638,671
Provision for credit impairment losses	42,704	1,914	44,618
Total operating income	144,965	9,073	154,038
Total operating expenses	103,337	1,270	104,606
Net income for the period	41,628	7,803	49,432

22. BASIC AND DILUTED EARNINGS PER SHARE

The basic and diluted earnings per share is calculated by dividing the profit for the year / period attributable to the shareholders by weighted average number of shares at the end of the year / period.

	2017	2016
Profit for the year / period	**66,273,977**	49,431,652
Weighted average number of ordinary shares	**50,000,000**	50,000,000
Basic and diluted earnings per share	**1.33**	0.99

23. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All financial assets (including lease receivables) and financial liabilities are measured at amortized cost except for derivative financial instruments which are measured at fair value. The carrying amounts of all financial assets and financial liabilities measured at amortized cost approximate their fair values except for net investments in finance leases.

The fair values of net investments in finance leases and derivative financial instruments are as follows:

Financial statement caption	**Fair value hierarchy**	**31 December 2017**	31 December 2016
Derivative financial instruments	Level 2	**(8,886,436)**	(220,140)
Net investments in finance leases	Level 3	**2,297,250,868**	2,032,288,310

The fair value of net investment in finance lease is determined using discounted cash flow technique considering the market rates. The market rates are determined based on the risk profile of lease receivables and current interest rates.

24. PROSPECTIVE CHANGES IN INTERNATIONAL FINANCIAL REPORTING FRAMEWORK

The Company has chosen not to early adopt the following amendments to existing standards and newly issued standards but not yet effective for the Company’s accounting years beginning on or after 1 January 2018 and is currently assessing their impact.

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

- IFRS 15 - “Revenue from contracts with customers”, applicable for the annual periods beginning on or after 1 January 2018. The new standard presents a five-step model to determine when to recognize revenue, and at what amount. The application of this standard will have a significant impact on how and when you recognize revenue, with new estimates and judgments, and the possibility of revenue recognition being accelerated or deferred.

- IFRS 16 – “Leases”, applicable for the period beginning on or after 1 January 2019. The new standard eliminates the current dual accounting model for lessees under IAS 17, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, IFRS 16 proposes on-balance sheet accounting model.

24. PROSPECTIVE CHANGES IN INTERNATIONAL FINANCIAL REPORTING FRAMEWORK (CONTINUED)

- IFRS 9 Financial Instruments will be effective from 1 January 2018 and will replace IAS 39 by building models using internal and external experts. The Comapny will recognize loss allowances based on Expected Credit Loss (ECL) considering forward-looking information. Setting framework with detailed policies and controls including roles and responsibilities will be implemented. The below summarized the implementation strategy and expected impact on the consolidated financial statements

Implementation and Impact Analysis of IFRS-9

Implementation strategy

In July 2014, the IASB issued IFRS 9 Financial Instruments, the standard that replaces 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 an implementation team with the support from its parent and an external consultant.

Classification and measurement

The classification and measurement of financial assets (except equity instruments) 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').

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. Instruments that are classified as AFS under IAS 39 may, under IFRS 9, be measured at amortised cost, FVOCI or FVTPL, depending on particular circumstances.

Under IFRS 9, the accounting for financial liabilities will largely remain similar to IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVTPL. 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 recognize impairment allowances based on a forward looking Expected Credit Loss (ECL) approach on financial assets that are not measured via FVTPL. This mainly include lease receivables. The key inputs into the measurement of ECL are the term structure of the following variables:

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

24. PROSPECTIVE CHANGES IN INTERNATIONAL FINANCIAL REPORTING FRAMEWORK (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 categorize its financial assets into following three stages in accordance with IFRS 9 methodology:

Stage 1: Performing assets: Financial asset(s) that have not significantly deteriorated in credit quality since origination. The impairment allowance will be recorded based on 12 months ECL.

Stage 2: Underperforming assets: Financial asset(s) that have significantly deteriorated in credit quality since origination. This credit quality assessment is made by comparing the remaining lifetime PD as at reporting date with the remaining lifetime PD point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations). The impairment allowance will be recorded based on lifetime ECL.

Stage 3: Impaired assets: For Financial asset(s) that are impaired, the Company will recognise the impairment allowance based on lifetime ECL.

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., unemployment, GDP growth, inflation, profit rates and house prices) and economic forecasts obtained through internal and external sources.

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

The Company is now ready to implement IFRS-9 after due validation by the external consultant.

Hedge accounting
The general hedge accounting requirements aim to simplify hedge accounting, creating a stronger link with risk management strategy and permitting hedge accounting to be applied to a greater variety of hedging instruments and risks. However, they do not explicitly address macro hedge accounting strategies. As a result, IFRS 9 allows an accounting policy choice to continue to apply hedge accounting requirements of IAS 39 instead of the requirements of IFRS 9.

Based on the analysis performed to date, the Company expects to exercise the accounting policy choice to continue IAS 39 hedge accounting 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 recognize 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 retained earnings. Accordingly, the overall impact on equity and the aggregated carrying value of relevant financial assets is estimated to be 1% and 0.24% respectively on the date of initial application arising due to application of expected credit loss model as against Incurred loss model.

Further, 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.

24. PROSPECTIVE CHANGES IN INTERNATIONAL FINANCIAL REPORTING FRAMEWORK (CONTINUED)

Governance and controls

The Governance structure and controls are currently under implementation in line with the IFRS-9 Guidance document. These Guidelines call for establishing a Board approved Governance framework with detailed policies and controls, including clear roles and responsibilities.

Caveat

The estimated decrease in shareholders' equity mainly pertains to the impact of 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 significantly from this estimate. The Company continues to refine models, methodologies and controls, and monitor developments in regulatory rule making in advance of IFRS 9 adoption on 1 January 2018.

25. COMMITMENTS

	31 December 2017	31 December 2016
Finance lease contracts signed with the customer but not yet executed	**483,240**	17,471,204

26. COMPARATIVE RECLASSIFICATIONS

In the current year, certain prior year figures pertaining to income from dealers and accrued commission expense on long-term loan have been reclassified, as presented below, to confirm with the current year presentation of these financial statements:

Description	**2016 Previously reported**	**Reclassification**	**2016 Revised**
Lease finance income	109,285,824	12,756,209	122,042,033
Fee income, net	42,112,132	(12,756,209)	29,355,923
Net Statement of profit or loss reclassification	**151,397,956**	**--**	**151,397,956**

Description	**2016 Previously reported**	**Reclassification**	**2016 Revised**
Current maturity of long term loans	310,000,000	9,600,163	319,600,163
Due to related parties	20,593,691	(9,600,163)	10,993,528
Net Statement of financial position reclassification	**330,593,691**	**--**	**330,593,691**

27. BOARD OF DIRECTOR' APPROVAL

These financial statements were approved by the Board of directors on 24 Jumada Al Thani 1439H corresponding to 12 March 2018.