ABDUL LATIF JAMEEL UNITED FINANCE COMPANY

(A SAUDI CLOSED JOINT STOCK COMPANY)

FINANCIAL STATEMENTS AND AUDITOR'S REPORT

31 DECEMBER 2018

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

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
For the year ended 31 December 2018

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

Opinion

We have audited the financial statements of Abdul Latif Jameel United Finance Company (a Saudi Closed Joint Stock Company) (the "Company"), which comprise the statement of financial position as at 31 December 2018, and the statement of comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended, and summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as modified by Saudi Arabian Monetary Authority (SAMA) for accounting of zakat and income tax.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") as endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with professional code of conduct and ethics, as endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Directors and Those Charged with Governance for the Financial Statements

The Directors are responsible for the preparation and fair presentation of the financial statements in accordance with the IFRSs as modified by SAMA for the accounting of zakat and income tax, the applicable requirements of the regulations for Companies in the Kingdom of Saudi Arabia and Company's By-laws, and for such internal control as Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of the 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
(Public Accountants)

Ahmed I. Reda
Certified Public Accountant
License No. 356

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25 February 2019
20 Jumada II 1440H

Jeddah
18/504/00

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	***2018*** ***SR '000***	*2017* *SR '000* *(Restated)*
Revenues	5	**778,146**	1,129,870
Direct costs	6	**(271,341)**	(524,506)
GROSS MARGIN		**506,805**	605,364
Net gain on derecognition of receivables	27(c)	**298,993**	442,244
Net change in present value of assets and liabilities relating to derecognised receivables		**(18,071)**	(206,247)
TOTAL OPERATING INCOME		**787,727**	841,361
Selling and marketing expenses	7	**(330,189)**	(407,572)
General and administrative expenses	8	**(188,817)**	(164,914)
Impairment reversal/(charge) for lease and notes receivables	13 & 14	**18,079**	(38,072)
TOTAL OPERATING EXPENSES		**(500,927)**	(610,558)
INCOME FROM OPERATIONS		**286,800**	230,803
Finance charges		**(13,291)**	(13,843)
Finance income	17 (a)	**87,166**	40,168
Other income		**9,227**	32,434
NET INCOME FOR THE YEAR		**369,902**	289,562
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified to income in subsequent periods:			
Effect of reclassification of notes receivable from amortized cost to fair value through other comprehensive income	14.1	**57,305**	-
Items that cannot be reclassified to income in subsequent periods:			
Actuarial gains relating to employee benefits liabilities	20	**1,032**	33,559
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**428,239**	323,121
Basic and diluted income per share (expressed in SR per share)	19	**2.18**	1.70

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

STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

ASSETS	Notes	***31 December 2018 SR '000***	*31 December 2017 SR '000 (restated)*	*31 December 2016 SR '000 (restated)*
NON-CURRENT ASSETS				
Property and equipment	10	**69,338**	79,830	81,119
Intangible assets	11	**15,123**	18,191	-
Investment classified as fair value through other comprehensive income	12	**893**	893	-
Net investment in finance lease	13	**776,124**	1,275,118	1,546,186
Notes receivable, carried at amortized cost	14	**14,775**	312,277	131,953
Notes receivable, carried at fair value through other comprehensive income	14	**423,594**	-	-
Other non-current assets	15	**38,182**	56,109	125,451
TOTAL NON-CURRENT ASSETS		**1,338,029**	1,742,418	1,884,709
CURRENT ASSETS				
Net investment in finance lease	13	**503,390**	505,748	612,906
Notes receivable, carried amortized cost	14	**37,729**	143,222	63,305
Inventories		**19,018**	39,045	212,121
Prepayments and other receivables	16	**85,194**	131,373	230,668
Due from related parties	22	**11,371**	29,942	6,393
Cash and bank balances	17	**3,942,121**	3,659,111	3,264,309
TOTAL CURRENT ASSETS		**4,598,823**	4,508,441	4,389,702
TOTAL ASSETS		**5,936,852**	6,250,859	6,274,411
SHAREHOLDERS' EQUITY AND LIABILITIES				
SHAREHOLDERS' EQUITY				
Share capital	1a	**1,700,000**	1,700,000	1,700,000
Statutory reserve	18	**250,108**	213,118	184,693
Retained earnings		**1,867,304**	2,079,898	1,870,670
Fair value reserve		**57,305**	-	-
Actuarial gains, net		**46,864**	45,832	12,273
TOTAL SHAREHOLDERS' EQUITY		**3,921,581**	4,038,848	3,767,636
NON-CURRENT LIABILITIES				
Employee benefits liabilities	20	**96,566**	128,858	177,412
Other non-current liability	27c(ii)	**11,480**	21,431	42,469
TOTAL NON-CURRENT LIABILITIES		**108,046**	150,289	219,881
CURRENT LIABILITIES				
Accounts payable, accrued and other liabilities	21	**1,771,298**	1,887,818	2,024,818
Due to related parties	22	**135,927**	173,904	262,076
TOTAL CURRENT LIABILITIES		**1,907,225**	2,061,722	2,286,894
TOTAL LIABILITIES		**2,015,271**	2,212,011	2,506,775
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**5,936,852**	6,250,859	6,274,411

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

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2018

	Share capital SR'000	*Statutory reserve SR'000*	*Retained Earnings SR'000*	*Fair value reserve SR'000*	*Actuarial gains, net SR'000*	***Total SR'000***
Balance as at 1 January 2018 (restated)	1,700,000	213,118	2,079,898	-	45,832	**4,038,848**
Impact of adopting IFRS 9 at 1 January 2018 (note 2(e))	-	-	(6,908)	-	-	**(6,908)**
Restated balance as at 1 January 2018	1,700,000	213,118	2,072,990	-	45,832	**4,031,940**
Net income for the year	-	-	369,902	-	-	**369,902**
Net change in actuarial gains on employee benefits liabilities (see note 20)	-	-	-	-	1,032	**1,032**
Effect of reclassification of notes receivable from amortized cost to fair value through other comprehensive income (note 14.1)	-	-	-	57,305	-	**57,305**
Total comprehensive income for the year	-	-	369,902	57,305	1,032	**428,239**
Zakat charge for the year (see note 9)	-	-	(36,990)	-	-	**(36,990)**
Zakat charge relating to prior years (see note 9)	-	-	(42,123)	-	-	**(42,123)**
Dividend paid during the year (see note 23)	-	-	(235,200)	-	-	**(235,200)**
Dividend declared (see note 23)	-	-	(224,285)	-	-	**(224,285)**
Transfer to statutory reserve during the year (see note 18)	-	36,990	(36,990)	-	-	-
Balance as at 31 December 2018	**1,700,000**	**250,108**	**1,867,304**	**57,305**	**46,864**	**3,921,581**
Balance as at 1 January 2017 (restated)	1,700,000	184,693	1,870,670	-	12,273	3,767,636
Net income for the year (restated) (see note 28)	-	-	289,562	-	-	289,562
Net change in actuarial gains on employee benefits liabilities (see note 20)	-	-	-	-	33,559	33,559
Total comprehensive income for the year (restated)	-	-	289,562	-	33,559	323,121
Zakat charge for the year (see note 9)	-	-	(51,909)	-	-	(51,909)
Transfer to statutory reserve during the year (see note 18)	-	28,425	(28,425)	-	-	-
Balance as at 31 December 2017 (restated)	1,700,000	213,118	2,079,898	-	45,832	4,038,848

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

STATEMENT OF CASH FLOWS
For the year ended 31 December 2018

	Notes	***2018*** ***SR'000***	*2017* *SR'000* *(restated)*
OPERATING ACTIVITIES			
Net income for the year		**369,902**	289,562
Adjustments to reconcile net income for the year to net cash flows:			
Depreciation	10	**16,621**	19,205
Amortization of intangible assets	11	**9,188**	984
Property and equipment written off	10	**-**	6,520
(Reversal)/impairment charge for lease and notes receivables	13 & 14	**(18,079)**	38,072
(Gain)/loss on disposal of property and equipment	10	**(36)**	50
Finance charges		**13,291**	13,843
Finance income	17 (a)	**(87,166)**	(40,168)
Net gain on derecognition of receivables	27(c)	**(298,993)**	(442,244)
Net change in present value of assets and liabilities relating to derecognition of receivables		**18,071**	206,247
Provision for employee benefits liabilities	20	**16,348**	28,483
		39,147	120,554
Changes in operating assets and liabilities:			
Net investment in finance lease		**818,278**	602,081
Notes receivable		**11,873**	(270,921)
Prepayments and other receivables and other non-current assets		**64,106**	159,858
Inventories		**20,027**	173,076
Due from related parties		**18,571**	(23,549)
Accounts payable, accrued and other liabilities and other non-current liability		**(377,044)**	(182,625)
Due to related parties		**(38,964)**	(88,172)
Cash from operations		**555,994**	490,302
Employees benefits liabilities paid	20	**(46,621)**	(42,504)
Finance charges paid		**(13,291)**	(13,843)
Zakat paid	9	**(52,825)**	(34,767)
Net cash from operating activities		**443,257**	399,188
INVESTING ACTIVITIES			
Purchase of property and equipment and intangibles	10	**(12,285)**	(43,661)
Proceeds from disposal of property and equipment		**72**	-
Investment classified as FVOCI	12	**-**	(893)
Finance income received	17 (a)	**87,166**	40,168
Other deposits		**(731,608)**	(681,736)
Net cash used in investing activities		**(656,655)**	(686,122)
FINANCING ACTIVITY			
Dividend paid	23	**(235,200)**	-
Cash used in financing activity		**(235,200)**	-
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(448,598)**	(286,934)
Cash and cash equivalents at the beginning of the year		**2,513,962**	2,800,896
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	17	**2,065,364**	2,513,962

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

1 ORGANIZATION AND ACTIVITIES

Abdul Latif Jameel United Finance Company (the "Company") is a Saudi Closed Joint Stock Company, initially registered in the Kingdom of Saudi Arabia as a Limited Liability Company under Commercial Registration number 4030206631, issued on 28 Dhul-Hijjah 1431H (corresponding to 4 December 2010).

The Company's head office is in Jeddah. The activities of the Company include finance leasing, financing of productive assets and consumer financing in the Kingdom of Saudi Arabia.

a) Share capital of the Company

As at 31 December 2018, 31 December 2017 and 31 December 2016, the share capital of the Company is owned as follows:

	No. of shares of SR 10 each	***31 December 2018 Amount SR'000***	*31 December 2017 Amount SR'000*	*31 December 2016 Amount SR'000*
Al Mumaizah United Commerce Company Limited	**150,450,000**	1,504,500	1,504,500	1,504,500
Altawfiq United Company	**17,000,000**	170,000	170,000	170,000
Taif First United Company Limited	**850,000**	8,500	8,500	8,500
Bader First United Company Limited	**850,000**	8,500	8,500	8,500
Najid Al Raeda United Company Limited	**850,000**	8,500	8,500	8,500
	170,000,000	1,700,000	1,700,000	1,700,000

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

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

The Ministerial Decision number 301, announcing the change of the name of the Company to Abdul Latif Jameel United Finance Company (a Saudi Closed Joint Stock Company) and to change the status of the Company from a Limited Liability Company to a Saudi Closed Joint Stock Company, was received on 4 Muharram 1436H (corresponding to 28 October 2014).

c) License from Saudi Arabian Monetary Authority (SAMA)

During 2013, in order to comply with the new finance regulations, the Company filed an application with Saudi Arabian Monetary Authority (SAMA). On 16 Safar 1436H (corresponding to 8 December 2014), the Company received the license from SAMA to undertake activities of finance leasing, financing of productive assets and consumer financing in the Kingdom of Saudi Arabia under license number 28/AU/201412.

d) Insurance arrangement

With effect from 1 January 2016, the Company entered into an agreement with the Insurers for 3 years (renewed every six months), upon each renewal, the insurance premium was subject to revision by the Insurer based on the loss ratio with any surplus to be shared between the parties in an agreed ratio. As a result of this arrangement, the Company did not retain any insurance risk. This agreement was terminated on 31 December 2016.

With effect from 1 January 2017, the Company entered into arrangements with Insurers for an initial period of six months, (renewed every six months) for three years. Upon each renewal, the premium rate, insurance charges and profit share was subject to be reviewed for any subsequent renewal period. As a result of this arrangement, the Company did not retain any insurance risk.

With effect from 1 January 2018, the Company has renewed the arrangements with certain amendments in the original agreements. The agreements are entered for an initial period of six months (renewed ever six months) for 3 years. Upon renewal the premium rate, insurance charges and profit share may be reviewed for any subsequent renewal period. As a result of this arrangement, the Company does not retain any insurance risk.

1 ORGANIZATION AND ACTIVITIES (continued)

e) Branches of the Company

As at 31 December 2018, the Company operates through 235 branches (31 December 2017: 235 branches) (31 December 2016: 253 branches). Certain branches are still registered in the name of UIS and are in the process of being transferred to the name of the Company. The accompanying financial statements include the assets, liabilities and results of these branches as the beneficial owner of these branches is the Company.

2 BASIS OF PREPARATION

a. Statement of compliance

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

Applying the above framework, the financial statements of the Company as at and for the year ended 31 December 2018 and 2017 have been prepared:

i) In accordance with International Financial Reporting Standards (IFRSs) as modified by the Saudi Arabian Monetary Authority (SAMA) for accounting of zakat and income tax', which requires, adoption of all IFRSs as issued by the International Accounting Standards Board ("IASB") except for the application of International Accounting Standard (IAS) 12 - "Income Taxes" and IFRIC 21 - "Levies" so far as these relate to zakat and income tax.

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

The Company has adopted IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" from 1 January 2018 and accounting policies for these new standards are disclosed in the note 3. In preparing these financial statements, the significant judgments made by management are the same as those that applied to the financial statements for the year ended 31 December 2017, except for those disclosed in note 2(e).

b. Basis of measurement

These financial statements are prepared under the historical cost convention using accrual basis of accounting, except for the 'Investment classified as fair value through other comprehensive income' (FVOCI) and a segment of notes receivable portfolio which have been measured at their fair values.

c. Functional and presentational currency

These financial statements have been presented in Saudi Riyals, which is the functional and presentational currency of the Company and have been rounded off to the nearest thousand Saudi Riyals, except as otherwise indicated.

2 BASIS OF PREPARATION (continued)

d. Significant accounting judgments, estimates and assumptions

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

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

Determination of servicing liability
As explained in note 27, under the purchase and agency agreements, 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 purchase and agency agreements.

Determination of expected defaults and discounts
As also explained in note 27, in order to calculate the net deferred consideration receivable under the purchase and agency agreements, the Company uses assumptions to calculate the allowance for delinquent receivables and discounts for premature terminations of contracts based on historical trends which are updated periodically (at least once in a year or more frequently when needed) based on a change in circumstances which indicate that the historical rates may not be appropriate.

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

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

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

Useful life of intangible assets
The Company's management determines the estimated useful lives of its intangible assets for calculating amortisation. This estimate is determined after considering the expected benefit obtained from the usage of the intangible assets. Management reviews the carrying value and useful lives annually and future amortisation charge would be adjusted where the management believes the useful lives differ from previous estimates.

Classification of financial assets
Assessment of business model within which the assets are held and assessment of whether the contractual terms of the financial assets are solely payment of principal and interest of the principal amount outstanding.

2 BASIS OF PREPARATION (continued)

d. Significant accounting judgments, estimates and assumptions (continued)

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

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

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

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

The Company's Expected Credit Loss (ECL) calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

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

At the reporting date, the allowance for doubtful debts relating to finance lease and notes receivable amounts to SR 191,786 thousand (31 December 2017: SR 171,127 thousand) (31 December 2016: 54,854 thousand) and SR 36,586 thousand (31 December 2017: SR 11,846 thousand) (31 December 2016: 1,318 thousand) respectively (see note 13 and note 14).

Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the statement of comprehensive income of those periods.

Provision for onerous arrangements
The Company enters into certain insurance arrangements with the Insurers for the insurance against physical damages arising from accidents to all leased vehicles (see note 1(d)). For such lease contracts, the insurance related inflows, being the collections from the customers, are fixed whereas the outflows, being the premiums paid to the insurers are renewed annually. At each statement of financial position date, the Company's management determines the best estimate of the future inflows and the related expected outflows over the period of the lease contract. In case the contracts are onerous, the provision for the onerous contracts is recognized. The actual results may differ from management's estimates resulting in future changes in estimated provision.

2 BASIS OF PREPARATION (continued)

e. Impact of new standards, interpretations and amendments adopted by the Company

The accounting policies used in the preparation of these financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31 December 2017 except for the adoption of new standards, amendments to existing standards and interpretations as mentioned below.

Effective 1 January 2018 the Company has adopted following accounting standards and interpretations, the impact of adoption of these standards and interpretations is explained below:

IFRS 15 Revenue from Contracts with Customers
The Company adopted IFRS 15 Revenue from contracts with customers (IFRS 15) resulting in a change in the revenue recognition policy of the Company in relation to its contracts with customers.

IFRS 15 was issued in May 2014 and is effective for annual periods commencing on or after 1 January 2018. IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue guidance, which is found currently across several standards and interpretations within IFRS. It established a new five-step model that will apply to 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 Company has opted for the modified retrospective application permitted by IFRS 15 upon adoption of the new standard. Modified retrospective application requires the recognition of the cumulative impact of adoption of IFRS 15 on all contracts as at 1 January 2018 in equity. There were no adjustments to opening retained earnings and other account balances on the adoption of IFRS 15.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration
The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Company's financial statements.

IFRS 9 Financial Instruments
The Company has adopted IFRS 9 - Financial Instruments issued in July 2014 with a date of initial application of 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

Classification of financial assets and financial liabilities
Financial assets
IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost ("AC"), fair value through other comprehensive income ("FVOCI") and fair value through statement of income ("FVIS"). This classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. For an explanation of how the Company classifies financial assets under IFRS 9, see respective section of significant accounting policies (see note 3).

2 BASIS OF PREPARATION (continued)

e. Impact of new standards, interpretations and amendments adopted by the Company

IFRS 9 Financial Instruments (continued)

Classification of financial assets and financial liabilities (continued)
Financial liabilities
IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all the fair value changes of liabilities designated under the fair value option were recognised in statement of income, under IFRS 9 fair value changes are generally presented as follows:

- The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in other comprehensive income (OCI); and
- The remaining amount of change in the fair value is presented in statement of income.

For an explanation of how the Company classifies financial liabilities under IFRS 9, see respective section of significant accounting policies (see note 3).

Impairment of financial assets
IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model (“ECL”). IFRS 9 requires the Company to record an allowance for ECLs for all loans and other debt financial assets not held at FVIS, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Company applies the impairment requirements of IFRS 9, see respective section of significant accounting policies. (see note 3)

Transition
Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- Comparative periods have not been restated. A difference in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

i. The determination of the business model within which a financial asset is held.
ii. The designation and revocation of previous designated financial assets and financial liabilities as measured at FVIS.
iii. The designation of certain investments in equity instruments not held for trading as FVOCI.

It is assumed that the credit risk has not increased significantly for those debt instruments / securities who carry low credit risk at the date of initial application of IFRS 9.

2 BASIS OF PREPARATION (continued)

e. Impact of new standards, interpretations and amendments adopted by the Company (continued)

IFRS 9 Financial Instruments (continued)

Financial assets and financial liabilities

i. Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

Financial Assets

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Company's financial assets as at 1 January 2018.

	Original classification under IAS 39	*New classification under IFRS 9*	*Original carrying value under IAS 39 SR '000*	*New carrying value under IFRS 9 SR '000*
Financial assets				
Notes receivables (see note 14)	Held to maturity	Amortized cost	455,499	456,012
Cash and bank balances	Held to maturity	Amortized cost	3,659,111	3,659,111
Employees' receivables	Loans and receivables	Amortized cost	26,898	26,898
Amount due from insurer	Loans and receivables	Amortized cost	79,621	79,621
Other receivables	Loans and receivables	Amortized cost	148	148
Due from related parties	Loans and receivables	Amortized cost	29,942	29,942
Investment classified as FVOCI	Available for sale	Fair value through other comprehensive income	893	893

ii. Reconciliation of carrying amounts under IAS 39 to carrying amounts under IFRS 9 upon adoption

	IAS 39 carrying amount as at 31 December 2017 SR '000	*Reclassification SR '000*	*Remeasurement SR '000*	*IFRS 9 carrying amount as at 1 January 2018 SR '000*
Amortized cost				
Notes receivables (see note 14)	455,499	-	513	456,012
Employees' receivables	26,898	-	-	26,898
Amount due from insurer	79,621	-	-	79,621
Other receivables	148	-	-	148
Due from related parties	29,942	-	-	29,942
Cash and bank balances	3,659,111	-	-	3,659,111
Total amortized cost	**4,251,219**	-	**513**	**4,251,732**
Fair value through other comprehensive income				
Investment classified as FVOCI	**893**	**-**	**-**	**893**

2 BASIS OF PREPARATION (continued)

e. Impact of new standards, interpretations and amendments adopted by the Company (continued)

IFRS 9 Financial Instruments (continued)

Financial assets and financial liabilities (continued)

Financial liabilities
Classification and carrying value for the financial liabilities is same as at 31 December 2017 under IAS 39 and 1 January 2018 under IFRS 9.

iii. Impact on retained earnings

	SR '000
Retained earnings	
Closing balance under IAS 39 (31 December 2017) (restated)	1,947,360
Remeasurement of impairment under IFRS 9 (against lease and notes receivables) (see note (iv) below)	(6,908)
Opening balance under IFRS 9 (1 January 2018)	**1,940,452**

iv. Impact on impairment allowance for financial assets
The following table reconciles the provision recorded as per the requirements of IAS 39 to that of IFRS 9:

- The closing impairment allowance for financial assets in accordance with IAS 39 at 31 December 2017; to
- The opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018.

	IAS 39 carrying amount as at 31 December 2017 SR '000	***Reclassification SR '000***	***Remeasurement SR '000***	***IFRS 9 carrying amount as at 1 January 2018 SR '000***
Amortized cost				
Notes receivables	11,846	-	(513)	11,333
Other financial asset				
Net investment in finance lease receivables	171,127	-	7,421	178,548
Total impairment allowance against financial assets	**182,973**	**-**	**6,908**	**189,881**

2 BASIS OF PREPARATION (continued)

e. Impact of new standards, interpretations and amendments adopted by the Company (continued)

IFRS 7 "Financial Instruments: Disclosure"

The Disclosures to reflect the differences between IAS 39 and IFRS 9, were also adopted by the Company together with IFRS 9, for the year beginning 1 January 2018. Changes include transition disclosures as shown in note 2(e) and (f), detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used are set out in note 26.

Reconciliation from opening to closing ECL allowance is presented in note 13 and 14.

f. Standards issued but not yet effective

The standards and interpretations that are issued but not yet effective, up to the reporting date are disclosed below. The Company intends to adopt these standards, when they become effective.

IFRS 16 – Leases:
IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (e.g., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (e.g., the lease liability) and an asset representing the right to use the underlying asset during the lease term (e.g., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

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

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

Transition to IFRS 16
The Company plans to adopt IFRS 16 with modified retrospective approach and will not restate previous periods while adjusting the difference between right of use assets and lease liability in the beginning balance of 2019 retained earnings as allowed by IFRS 16. The Company will elect to apply the standard to contracts that were previously identified as leases applying IAS 17.

The Company plans to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application or lease contracts for which the underlying asset is of low value.

The Company plans to use the exemption proposed by the standard on lease contracts for which the lease terms end within 12 months as of the date of initial application, or lease contracts for which underlying asset is of low value.

The Company has performed an impact assessment of IFRS 16 based on which, the impact of adoption is expected to be less than 2% and 4% of assets and liabilities, respectively. The adoption would not have any significant impact on equity.

2 BASIS OF PREPARATION (continued)

f. Standards issued but not yet effective (continued)

Amendments to IFRS 9: Prepayment Features with Negative Compensation
Under IFRS 9, a debt instrument can be measured at AC or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the financial statements of the Company.

Amendments to IFRS 3: Definition of a business
The amendments clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. They also clarify that a business can exist without including all of the inputs and processes needed to create outputs. That is, the inputs and processes applied to those inputs must have 'the ability to contribute to the creation of outputs' rather than 'the ability to create outputs'.

The amendments narrowed the definition of outputs to focus on goods or services provided to customers, investment income (such as dividends or interest) or other income from ordinary activities.

The amendments apply to annual periods beginning on or after 1 January 2020. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Company is not affected by these amendments.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The amendments to IFRS 10 and IAS 28 have no impact on the Company.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement
The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Company.

2 BASIS OF PREPARATION (continued)

f. Standards issued but not yet effective (continued)

Amendments to IAS 28: Long-term interests in associates and joint ventures
The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted. Since the Company does not have any such long-term interests, the amendments will not have an impact on its financial statements.

Annual Improvements 2015-2017 Cycle (issued in December 2017)

These improvements include:

IFRS 3 Business Combinations - The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments have no impact on the Company.

IFRS 11 Joint Arrangements - A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments are not applicable to the Company.

IAS 23 Borrowing Costs - The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. These amendments are not applicable to the Company.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

All other assets are classified as non-current.

A liability is current when:

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

The Company classifies all other liabilities as non-current.

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

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

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

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

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

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

As part of the periodic installments due from customers, the Company charges customers for insurance cover on the vehicles under lease contracts. Insurance charges represent cost of insurance (premium). Consequently, premiums are paid to the Insurers for the insurance cover for the vehicles under lease, pursuant to the agreement mentioned in note 1(d).

Installment sales

Income from installment sales is recognized over the contract term using the effective yield method.

Contract fee income

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

Income from purchase and agency agreements

Income from purchase and agency arrangements represents management fees due under the purchase and agency agreements with certain banks and is recognised on an accrual basis.

Finance income

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

Expenses

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

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

Zakat

Zakat is provided in accordance with the Regulations of the General Authority of Zakat and Tax (GAZT) in the Kingdom of Saudi Arabia and on accruals basis. As set out in the note 2(a), zakat charge for year is charged directly to the statement of changes in shareholder's equity with a corresponding liability recognized in the statement of financial position. Differences, if any, resulting from the final assessments are adjusted in the year of their finalization.

Foreign currency translation

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

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

Property and equipment

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

Leasehold improvements	8% - 20%
Furniture, fixtures and equipment	20% - 25%
Computer equipment	33.33%
Motor vehicles	33.33%

Freehold land is not depreciated.

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

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

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

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. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the 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 income in the expense category that is consistent with the function of the intangible assets

As at 31 December 2018, the estimated rate of amortization of the Intangible assets is determined to be 33.33% per annum.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition 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 income when the asset is derecognised.

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-current assets (continued)
These calculations are corroborated by valuation multiples or other available fair value indicators.

Impairment losses of continuing operations are recognised in the statement of comprehensive income if those expense categories are consistent with the function of the impaired asset. For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or cash-generating unit's recoverable amount. A previously 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. Such reversal is recognised in the statement of comprehensive income.

Financial instruments – initial recognition and subsequent measurement

Classification of financial assets

On initial recognition, a financial asset is classified as amortised cost, fair value through other comprehensive income ("FVOCI") or fair value through statement of income ("FVIS").

Financial Asset at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVIS:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial Asset at FVOCI

Debt instruments:
A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVIS:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (HTCS); and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The financial assets measured at FVOCI have been classified as non-current assets in the statement of financial position.

Equity instruments:
On initial recognition, for an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

Financial Asset at FVIS
All other financial assets are classified as measured at FVIS.

In addition, on initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVIS if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

Classification of financial assets (continued)

Business model assessment

The Company makes an assessment of the objective of a business model under which an asset is held, at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated- e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realized.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Financial assets that are held for trading and whose performance is evaluated on a fair value basis are measured at FVIS because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

During the year ended 31 December 2018, the management of the Company reassessed the business model in respect of realization of the cash from its portfolio of notes receivables (see note 14).

Assessments whether contractual cash flows are solely payments of principal and interest ("SPPI" criteria)

For the purposes of this assessment, 'principal' is the fair value of the financial asset on initial recognition. 'Interest' is the consideration for the time value of money, the credit and other basic lending risk associated with the principal amount outstanding during a particular period and other basic lending costs (e.g. liquidity risk and administrative costs), along with profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making the assessment, the Company considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money- e.g. periodical reset of interest rates.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Classification of financial liabilities

Upon initial recognition, the Company classifies its financial liabilities, as measured at amortised cost.

Subsequently, financial liabilities are measured at amortised cost, unless they are required to be measured at fair value through income statement or an entity has opted to measure a liability at fair value through income statement as per the requirements of IFRS 9.

Derecognition

Financial assets
The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in statement of comprehensive income.

From 1 January 2018, any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in statement of income on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognised as a separate asset or liability.

In transactions in which the Company neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Company continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities
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 comprehensive income.

Modifications of financial assets and financial liabilities
Financial assets
If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Company recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in the statement of income. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income/loss.

Financial liabilities
The Company derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability recognized with modified terms is recognised in statement of comprehensive income.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment

The Company recognizes loss allowances for ECL on the following financial instruments that are not measured at FVIS:

- financial assets that are debt instruments; and
- loan commitments issued, if any.

No impairment loss is recognised on equity investments.

The Company measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Company considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

The key inputs into the measurement of ECL are the term structure of the following variables:

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

The Company categorizes its financial assets into following three stages in accordance with the IFRS-9 methodology:

- Stage 1 – Financial assets that are not significantly deteriorated in credit quality since origination. The impairment allowance is recorded based on 12 months Probability of Default (PD).

- Stage 2 – Financial assets that has significantly deteriorated in credit quality since origination**.** The impairment allowance is recorded based on lifetime ECL and life time PD.

- Stage 3 – For financial assets that are impaired, the Company recognizes the impairment allowance based on life time PD.

The Company also considers 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 expert judgement, macroeconomic factors (e.g., oil prices, inflation, manufacturing purchasing manager’s index and money supply) and economic forecasts obtained through internal and external sources.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive); and
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original special commission rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred.

A loan that has been renegotiated due to deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Company considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL against financial assets measured at amortised cost are presented in the statement of financial position as a deduction from the gross carrying amount of the assets.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

Collateral valuation

To mitigate its credit risks on financial assets, the Company seeks to use collateral, where possible. The collateral comes in various forms, such as personal guarantees and other non-financial assets. The Company's accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same as it was under IAS 39. Collateral, unless repossessed, is not recorded on the Company's statement of financial position. However, the fair value of collateral does not affect the calculation of ECLs. The value of the collateral is determined at inception.

Collateral repossessed

The Company's accounting policy under IFRS 9 remains the same as it was under IAS 39. The Company's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to inventories at the repossession date in line with the Company's policy.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividend
The Company recognises a liability to pay a dividend when the distribution is authorised and the distribution is no longer at the discretion of the Company. As per the Regulations for Companies, a distribution is authorised when it is approved by the shareholders of the Company. A corresponding amount is recognised directly in statement of changes in shareholders' equity.

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.

Inventories
Inventories are stated at the lower of cost and net realizable value. Inventories include the value of the purchased vehicles for leasing where contract procedures with lessees were not completed until the date of the financial statements, vehicles repossessed on termination of lease contracts and the purchase value of vehicles held in stock for leasing. Net realizable value represents the estimated selling price for inventories less the costs necessary to make the sale. Any impairment loss arising as a result of carrying these assets at their net realizable values is recognised in the statement of comprehensive income.

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 the Company will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

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

Onerous contracts
An onerous contract is one where the unavoidable costs of meeting the Company's contractual obligations exceed the expected economic benefits. If the Company has a contract that is onerous, it recognises the present obligation under the contract as a provision. Provisions are discounted using a current pre-zakat rate that reflects, where appropriate, current market assessments of the time value of money and the risks specific to the provision. The unwinding of the discount is expensed as incurred and recognised in the statement of comprehensive income.

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Claims
The amounts paid or payable in respect of the Company's obligation in respect of the insurance cover and the risks insured by the Insurers are claimed from the Insurers, net of salvage and subrogation recoveries and deductibles. Salvage recoveries represent the value of the damaged vehicles recorded at their net realizable values based on management's best estimate, with a corresponding payable being recorded to the Insurer. The Company also has the right to pursue third parties for payment of some or all costs of claims. (i.e. subrogation). Subrogation receivables, net of allowance for potential irrecoverable amounts are recognised in other assets, with a corresponding payable being recorded to the Insurer.

Outstanding claims comprise the estimated cost of claims incurred but not settled at the reporting date together with related claims handling costs, with a corresponding receivable being recorded from the Insurers.

Provisions for claims incurred but not reported as of the reporting date are made on the basis of actuarial valuation, with a corresponding receivable being recorded from the Insurers.

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

Statutory reserve
As required by the regulations for companies, the Company has established a statutory reserve by the appropriation of at least 10% of net income (after deducting any brought forward accumulated losses). The shareholders may resolve to discontinue such transfer when the reserve equals 30% of the share capital. This reserve is not available for dividend distribution (see note 18).

4 SEGMENT REPORTING

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

The Company carries out its activities entirely in the Kingdom of Saudi Arabia and is mainly engaged in providing vehicles to customers on finance lease and instalment basis.

5 REVENUES

	2018	*2017*
	SR '000	*SR '000*
Income from instalment sales	**295,891**	483,997
Income from finance leases	**164,957**	256,265
Contract fee income	**40,064**	68,701
Income from purchase and agency agreements (see note 27)	**277,234**	320,907
	778,146	1,129,870

6 DIRECT COSTS

	2018 ***SR'000***	*2017* *SR'000* *(restated)*
Cost of sales of instalment sales contracts	**220,942**	428,544
Direct costs on finance leases and instalment sales	**37,770**	60,192
Provision for onerous insurance arrangements (see note 21)	**12,629**	35,770
	271,341	524,506

7 SELLING AND MARKETING EXPENSES

	2018 ***SR '000***	*2017* *SR '000*
Salaries and related costs	**239,550**	266,233
Depreciation (see note 10)	**10,568**	11,918
Property and equipment written off, net (see note 10)	-	6,520
Advertisement	**16,381**	52,481
Communication	**16,753**	16,625
Rent	**12,496**	10,288
Expenses charged by affiliates, net (see note 22)	**8,453**	8,453
Others	**25,988**	35,054
	330,189	407,572

8 GENERAL AND ADMINISTRATIVE EXPENSES

	2018 ***SR '000***	*2017* *SR '000*
Salaries and related costs	**121,646**	101,561
Depreciation (see note 10)	**6,053**	7,287
Amortization (see note 11)	**9,188**	984
Donations	**9,476**	7,289
Expenses charged by affiliates, net (see note 22)	**24,098**	35,350
Others	**18,356**	12,443
	188,817	164,914

9 ZAKAT

The principal elements of the zakat base are as follows:

	For the year ended 31 December 2018 ***SR '000***	*For the year ended 31 December 2017* *SR '000* *(restated)*
Non-current assets	**1,338,029**	1,742,418
Non-current liabilities	**108,046**	150,289
Opening shareholders' equity	**4,038,848**	3,767,636
Net income	**369,902**	289,562

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

9 ZAKAT (continued))

During the year ended 31 December 2018, an amount of SR 36.9 million has been recorded as zakat charge (31 December 2017: SR 51.9 million) and an amount of SR 52.8 million (31 December 2017: SR 34.8 million) has been paid to the GAZT based on zakat declaration.

Additionally, in respect of assessment for 2012, the GAZT raised an additional liability of SR 27.6 million, which has been accepted and recorded by the Company. Further, the Company has made an additional provision of SR 14.5 million relating to the prior years.

Status of zakat assessments

For the year 2012, the GAZT issued an assessment claiming additional zakat of SR 27.6 million against which the Company filed an objection, which was not accepted by the GAZT, therefore, the Company requested that the objection be forwarded to the Preliminary Objection Committee. However, subsequent to the year-end, the Company has decided to retract the objection and settle the above amount. The zakat declaration for the years 2013 to 2017 are currently under review by the GAZT. Further, the Company has a No objection letter from the GAZT valid up to 30 April 2019.

10 PROPERTY AND EQUIPMENT

	Freehold lands *(note 10(b))*	*Leasehold improvements*	*Furniture, fixture and equipment*	*Computer equipment*	*Motor vehicles*	*Capital work in progress* *(note 10(a))*	*Total* ***2018***	*Total 2017*	*Total 2016*
		Amounts in SR ('000)							
Cost:									
At the beginning of the year	24,037	36,289	46,253	55,773	166	-	**162,518**	177,371	119,817
Additions during the year	-	539	1,063	1,835	-	2,728	**6,165**	43,661	59,292
Transfers	-	1,189	(1,189)	-	-	-	-	(42,888)	-
Write-off	-	-	-	-	-	-	-	(14,554)	-
Disposals	-	-	(482)	-	-	-	**(482)**	(1,072)	(1,738)
At the end of the year	**24,037**	**38,017**	**45,645**	**57,608**	**166**	**2,728**	**168,201**	162,518	177,371
Accumulated depreciation:									
At the beginning of the year	-	7,779	33,420	41,323	166	-	**82,688**	96,252	78,854
Charge for the year	-	4,388	5,380	6,853	-	-	**16,621**	19,205	18,470
Transfers	-	1,044	(1,044)	-	-	-	**-**	(23,713)	-
Write-off	-	-	-	-	-	-	**-**	(8,034)	-
Disposals	-	-	(446)	-	-	-	**(446)**	(1,022)	(1,072)
At the end of the year	-	**13,211**	**37,310**	**48,176**	**166**	-	**98,863**	82,688	96,252
Net book value:									
At the end of year	**24,037**	**24,806**	**8,335**	**9,432**	**-**	**2,728**	**69,338**	79,830	81,119

10 PROPERTY AND EQUIPMENT (continued)

a) During 2017, capital work in progress included costs incurred in relation to upgrading of accounting software, which was transferred to intangible assets from the date its available for intended use (see note 11).

b) During 2017, the Company purchased land from an affiliate, costing SR 12.27 million for which the title deed has not been transferred to the name of the Company as of 31 December 2018. Legal procedures in this regard are in progress at the year-end.

The allocation of the depreciation charge for the year ended 31 December 2018 and 31 December 2017 is as follows:

	2018	*2017*
	SR '000	*SR '000*
Selling and marketing expenses (see note 7)	**10,568**	11,918
General and administrative expenses (see note 8)	**6,053**	7,287
	16,621	19,205

11 INTANGIBLE ASSETS

	2018	*2017*
	SR '000	*SR '000*
Cost:		
At the beginning of the year	**42,888**	-
Transferred in during the year	-	42,888
Additions	6,120	-
Disposals	(11,987)	-
At 31 December	**37,021**	42,888
Accumulated amortization:		
At the beginning of the year	**24,697**	23,713
Charge for the year (note 8)	**9,188**	984
Disposals	**(11,987)**	-
At 31 December	**21,898**	24,697
Net carrying amounts:		
At 31 December 2018	**15,123**	
At 31 December 2017		18,191

12 INVESTMENT CLASSIFIED AS FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

On 12 December 2017, the Company subscribed 2.38% shareholding in Saudi Company for Registration of Financial Leasing Contracts ("Registration Company"), registered in the Kingdom of Saudi Arabia. The Registration Company has been formed with other finance and leasing Companies registered in the Kingdom of Saudi Arabia for registration of contracts relating to financial leases and amendments and registration and transfer of title deeds of the assets under the finance leases arrangements.

13 NET INVESTMENT IN FINANCE LEASE

	31 December 2018 SR '000	*31 December 2017 SR '000*	*31 December 2016 SR '000*
Gross investment in finance lease	**1,781,742**	2,408,502	2,754,757
Less: unearned finance income	**(310,442)**	(456,509)	(540,811)
	1,471,300	1,951,993	2,213,946
Less: allowance for doubtful debts (see note a)	**(191,786)**	(171,127)	(54,854)
Net investment in finance lease	**1,279,514**	1,780,866	2,159,092

	31 December 2018				
	Years	*Gross investment SR in 000*	*Unearned finance income SR in 000*	*Allowance for doubtful debts SR in 000*	*Net investment SR in 000*
Current portion	2019	**840,929**	**(145,753)**	**(191,786)**	**503,390**
Non-current portion	2020	**374,608**	**(79,199)**	-	**295,409**
	2021	**243,042**	**(44,855)**	-	**198,187**
	2022	**323,163**	**(40,635)**	-	**282,528**
Total non-current portion		**940,813**	**(164,689)**	-	**776,124**
Total		**1,781,742**	**(310,442)**	**(191,786)**	**1,279,514**

	31 December 2017				
	Years	*Gross Investment SR in 000*	*Unearned finance income SR in 000*	*Allowance for doubtful debts SR in 000*	*Net Investment SR in 000*
Current portion	2018	872,094	(195,219)	(171,127)	505,748
Non-current portion	2019	554,728	(119,296)	-	435,432
	2020	385,006	(73,529)	-	311,477
	2021	596,674	(68,465)	-	528,209
Total non-current portion		1,536,408	(261,290)	-	1,275,118
Total		2,408,502	(456,509)	(171,127)	1,780,866

13 NET INVESTMENT IN FINANCE LEASE (continued)

	31 December 2016				
	Years	*Gross Investment SR in 000*	*Unearned finance income SR in 000*	*Allowance for doubtful debts SR in 000*	*Net Investment SR in 000*
Current portion	2017	909,941	(242,181)	(54,854)	612,906
Non-current portion	2018	677,248	(153,999)	-	523,249
	2019	508,110	(96,547)	-	411,563
	2020	659,458	(48,084)	-	611,374
Total non-current portion		1,844,816	(298,630)	-	1,546,186
Total		2,754,757	(540,811)	(54,854)	2,159,092

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

	For the year ended 31 December 2018 SR '000	*For the year ended 31 December 2017 SR '000*	*For the year ended 31 December 2016 SR '000*
At the beginning of the year	**171,127**	54,854	31,605
Adjustment for first time adoption of IFRS 9 (see note 2 (e))	**7,421**	-	-
At the beginning of the period (as per IFRS 9)	**178,548**	54,854	31,605
Net (reversal)/charge during the year	**(43,425)**	27,392	23,316
Provision transferred on closure of 'purchase and agency agreements' (see note 27 (c))	**91,315**	101,785	-
Amounts written off during the year	**(34,652)**	(12,904)	(67)
At 31 December	**191,786**	171,127	54,854

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

	31 December 2018 SR '000	*31 December 2017 SR '000*	*31 December 2016 SR '000*
1 – 3 months	36,366	51,135	24,542
4 – 6 months	24,631	25,719	7,005
7 – 12 months	44,995	32,016	5,504
More than 12 months	28,305	20,366	3,855
At 31 December	134,297	129,236	40,906

The not yet due portion of above overdue finance lease receivables as of 31 December 2018 amounts to SR 484,769 thousand (31 December 2017: SR 444,343 thousand and 31 December 2016: SR 311,625 thousand).

14 NOTES RECEIVABLE

Notes receivable comprise of receivables arising from instalment sales of equipment and vehicles. For the purposes of these financial statements, the notes receivable pertaining to instalment sale of vehicles have been carried at fair value through other comprehensive income (see note 14.1) and notes receivable pertaining to instalment sales of equipment have been carried at amortized cost, as detailed below:

	31 December 2018 SR'000	*31 December 2017 SR'000*	*31 December 2016 SR'000*
Notes receivable carried at fair value through other comprehensive income (note 14.1 below)	**423,594**	-	-
Notes receivable carried at amortized cost (note 14.2 below)	**52,504**	455,499	195,258

14.1 Notes receivable carried at fair value through other comprehensive income

During the year ended 31 December 2018, the management of the Company changed the business model in respect of realization of note receivables portfolio relating to instalment sales of vehicles. Previously, notes receivables were classified as 'Hold to Collect' financial asset and had been accounted for at 'Amortised Cost'.

As per the revised business model, the cash flows of such portfolio of notes receivables are expected to be realized through collection from the customers and/or through sale under purchase and agency agreements with banks (see note 27). Accordingly, such portfolio of notes receivables has been classified as 'Hold to Collect and Sell'.

Due to the change in the business model, such portfolio of notes receivables has been reclassified from 'Amortized Cost (AC)' to 'Fair Value Through Other Comprehensive Income (FVOCI)'. The amortised cost of these notes receivable as at 31 December 2018 was SR 366.3 million, whereas the fair value of this portfolio was determined to be SR 423.6 million. As a result, the Company has recognized an impact of SR 57.3 million in 'statement of comprehensive income' during the year ended 31 December 2018.

The movement in allowance for doubtful debts against notes receivable carried at fair value through other comprehensive income is as follows:

	31 December 2018 SR'000
Transferred on reclassification of notes receivable from amortized cost to fair value through other comprehensive income (see note 14.2 (a) below)	**9,540**
Provided during the period	**23,248**
Amount transferred on closure of 'purchase and agency agreements' (see note 27 (c))	**23**
Amount written off during the year	**(116)**
	32,695

14 NOTES RECEIVABLE (continued)

14.2 Notes receivable, carried at amortized cost

	31 December 2018 SR'000	*31 December 2017 SR'000*	*31 December 2016 SR'000*
Notes receivable, gross	**61,652**	590,876	254,214
Less: unearned finance income	**(5,257)**	(123,531)	(57,638)
	56,395	467,345	196,576
Less: allowance for doubtful debts (see note a)	**(3,891)**	(11,846)	(1,318)
Notes receivable, net	**52,504**	455,499	195,258

	31 December 2018				
	Years	*Gross investment SR in 000*	*Unearned finance income SR in 000*	*Allowance for doubtful debts SR in 000*	*Net Investment SR in 000*
Current portion	2019	45,557	(3,937)	(3,891)	37,729
Non-current portion	2020	16,095	(1,320)	-	14,775
Total		61,652	(5,257)	(3,891)	52,504

	31 December 2017				
	Years	*Gross Investment SR in 000*	*Unearned finance income SR in 000*	*Allowance for doubtful debts SR in 000*	*Net Investment SR in 000*
Current portion	2018	215,646	(60,578)	(11,846)	143,222
Non-current portion	2019	165,182	(39,368)	-	125,814
	2020	141,343	(19,668)	-	121,675
	2021	68,705	(3,917)	-	64,788
Total non-current portion		375,230	(62,953)	-	312,277
Total		590,876	(123,531)	(11,846)	455,499

14 NOTES RECEIVABLE (continued)

14.2 Notes receivable, carried at amortized cost (continued)

	31 December 2016				
	Years	*Gross investment SR in 000*	*Unearned finance income SR in 000*	*Allowance for doubtful debts SR in 000*	*Net Investment SR in 000*
Current portion	2017	89,853	(25,230)	(1,318)	63,305
Non-current portion	2018	69,521	(17,750)	-	51,771
	2019	51,330	(10,351)	-	40,979
	2020	43,510	(4,307)	-	39,203
Total non-current portion		164,361	(32,408)	-	131,953
Total		254,214	(57,638)	(1,318)	195,258

a) The movement in allowance for doubtful debts is as follows:

	For the year ended 31 December 2018 SR'000	*For the year ended 31 December 2017 SR'000*	*For the year ended 31 December 2016 SR'000*
At the beginning of the year	**11,846**	1,318	315
Adjustment for first time adoption of IFRS 9	**(513)**	-	-
At the beginning of the period (as per IFRS 9)	**11,333**	1,318	315
Transferred on reclassification of notes receivable from amortized cost to fair value through other comprehensive income	**(9,540)**	-	-
Provided during the year	**2,098**	10,680	1,028
Amount transferred on closure of 'purchase and agency agreements' (see note 27 (c))	-	63	-
Amount written off during the year	-	(215)	(25)
At the end of the year	**3,891**	11,846	1,318

14 NOTES RECEIVABLE (continued)

14.2 Notes receivable, carried at amortized cost (continued)

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

	31 December 2018 SR'000	*31 December 2017 SR'000*	*31 December 2016 SR'000*
1 – 3 months	**6,068**	3,541	745
4 – 6 months	**2,459**	887	246
7 – 12 months	**2,368**	784	284
More than 12 months	**1,511**	584	127
	12,406	5,796	1,402

The not yet due portion of above overdue notes receivables as of 31 December 2018 amounts to SR 108,455 thousand (31 December 2017: SR 70,283 thousand) (31 December 2016: 8,723 thousand).

15 OTHER NON-CURRENT ASSETS

	31 December 2018 SR '000	*31 December 2017 SR '000 (restated)*	*31 December 2016 SR '000*
Employees' receivables – non-current portion	**9,374**	11,100	16,958
Present value of deferred consideration receivable, net – non-current portion (see note 27c(i))	**-**	-	70,155
Present value of net servicing asset (see note 27c(ii) and note 28)	**28,808**	45,009	38,338
	38,182	56,109	125,451

16 PREPAYMENTS AND OTHER RECEIVABLES

	31 December 2018 SR '000	*31 December 2017 SR '000 (restated)*	*31 December 2016 SR '000*
Prepaid expenses	**1,213**	15,214	24,538
Employees' receivables – current portion	**9,174**	15,798	20,274
Present value of deferred consideration receivable, net – current portion (see note 27c(i))	**1**	32	67,316
Amount due from the Insurer	**67,729**	100,181	109,662
Other receivables	**7,077**	148	8,878
	85,194	131,373	230,668

17 CASH AND BANK BALANCES

	31 December 2018 SR '000	*31 December 2017 SR '000*	*31 December 2016 SR '000*
Cash in hand	**11,652**	22,243	33,742
Bank balances (see note 'b' below)	**2,053,712**	2,491,719	2,767,154
Cash and cash equivalents	**2,065,364**	2,513,962	2,800,896
Other deposits (having maturity of more than 3 months)	**1,876,757**	1,145,149	463,413
Cash and bank balances	**3,942,121**	3,659,111	3,264,309

a) During the year, the Company earned SR 87.2 million (31 December 2017: SR 40.2 million) (31 December 2016: SR 66.2 million) on the murabaha deposits at the rate of return ranging from 1.11% to 3.55% (2017: 0.57% to 2.70% and 2016: 0.34% to 3.50%).

b) At 31 December 2018, cash and bank balances include murabaha deposits of SR 107.6 million (2017: SR 149.1 million and 2016: SR 197.9 million) representing amounts set aside in respect of employee benefits liabilities.

c) Details on foreign currency time deposits included in cash and bank balances is follows:

	31 December 2018 SR '000	*31 December 2017 SR '000*	*31 December 2016 SR '000*
Cash and cash equivalents	**-**	-	865,026
Other deposits	**1,169,351**	1,145,149	265,526
Cash and bank balances	**1,169,351**	1,145,149	1,130,552

18 STATUTORY RESERVE

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

Until 2016, Company's By-laws required such transfer until it reaches 50% of the share capital, however, it has been amended to 30% during the year to align with the requirements of the regulations for Companies.

19 EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing the net income for the year by the weighted average number of ordinary shares outstanding during the year. The calculation of diluted earnings per share is not applicable to the Company. The basic and diluted earnings per share are calculated as follows:

	For the year ended 31 December 2018 SR '000	*For the year ended 31 December2017 SR '000 (restated)*
Net income for the year (see note 28)	**369,902**	289,562
Weighted average number of ordinary shares *(in'000)* (see note 1a)	**170,000**	170,000
Basic and diluted earnings per share (SR per share)	**2.18**	1.70

20 EMPLOYEE BENEFITS LIABILITIES

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

	2018	*2017*	*2016*
Discount rate	**4.5%**	4.5%	6.3%
Expected rate of salary increase	**2.5%**	2.5%	5.5%

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

	2018 ***SR '000***	*2017* *SR '000*
Current service cost (see notes 20.1 and 20.2)	**11,703**	18,916
Interest cost (see notes 20.1 and 20.2)	**4,645**	9,567
	16,348	28,483

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

	2018 ***SR '000***	*2017* *SR '000*	*2016* *SR '000*
End-of-service benefits (see note 20.1)	**50,561**	67,587	92,185
Ex-gratia benefits (see note 20.2)	**46,005**	61,271	85,227
	96,566	128,858	177,412

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

	For the year ended 31 December 2018 ***SR '000***	*For the year ended 31 December 2017* *SR '000*	*For the year ended 31 December 2016* *SR '000*
Balance at the beginning of the year	**67,587**	92,185	96,290
Current service cost	**6,478**	10,480	10,265
Interest cost	**2,353**	4,825	5,724
Net change in actuarial losses/(gains)	**2,352**	(13,324)	(6,020)
Benefits paid	**(27,704)**	(26,033)	(12,131)
Transferred out during the year	**(505)**	(546)	(1,943)
At 31 December	**50,561**	67,587	92,185

20 EMPLOYEE BENEFITS LIABILITIES (continued)

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

	For the year ended 31 December 2018 SR '000	*For the year ended 31December 2017 SR '000*	*For the year ended 31December 2016 SR '000*
Balance at beginning of the year	**61,271**	85,227	86,639
Current service cost	**5,225**	8,436	7,040
Interest cost	**2,292**	4,742	5,186
Net change in actuarial gains	**(3,384)**	(20,235)	(3,934)
Benefits paid	**(18,917)**	(16,471)	(7,917)
Transferred out during the year	**(482)**	(428)	(1,787)
At 31 December	**46,005**	61,271	85,227

Sensitivity analysis
Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

End of service benefits	**31 December 2018**		**31 December 2017**	
	Decrease in liability	Increase in liability	Decrease in liability	Increase in liability
Discount rate (1% movement)	(4,855)	5,371	(6,227)	6,859
Future salary growth (1% movement)	(5,371)	4,855	(6,859)	6,227

Ex-gratia benefits	**31 December 2018**		**31 December 2017**	
	Decrease in liability	Increase in liability	Decrease in liability	Increase in liability
Discount rate (1% movement)	(4,710)	5,248	(6,016)	6,671
Future salary growth (1% movement)	(5,248)	4,710	(6,671)	6,016

21 ACCOUNTS PAYABLE, ACCRUED AND OTHER LIABILITIES

	31 December 2018 SR '000	*31 December 2017 SR '000 (restated)*	*31 December 2016 SR '000 (restated)*
Accounts payable – trade	**28,265**	107,396	123,782
Accrued expenses and zakat payable (see note 9 and 28)	**160,871**	134,030	124,444
Payable under purchase and agency agreements (see note 27)	**428,089**	627,326	582,577
Present value of net servicing liability – current portion (see note 27c(ii))	**32,723**	39,738	63,960
Provision for expected defaults and discounts under purchase and agency agreements (see note 27)	**712,584**	773,313	750,692
Amount due to the Insurer	**27,552**	30,467	40,637
Provision for onerous arrangement (see note 6 and note below)	**8,608**	-	68,191
Dividend payable (see note 23)	**224,285**	-	-
Advance collections and other payables	**148,321**	175,548	270,535
	1,771,298	1,887,818	2,024,818

21 ACCOUNTS PAYABLE, ACCRUED AND OTHER LIABILITIES (continued)

The movement in the provision for onerous insurance arrangements is as follows:

	For the year ended 31 December 2018 SR '000	*For the year ended 31 December 2017 SR '000*	*For the year ended 31 December 2016 SR '000*
At the beginning of the year	-	68,191	32,303
Charge for the period (see note 6)	**12,629**	35,770	141,562
Utilization during the year	**(4,021)**	(103,961)	(105,674)
At 31 December	**8,608**	-	68,191

22 RELATED PARTY TRANSACTIONS AND BALANCES

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

i) Following are the details of related party transactions during the year:

Related party	**Nature of transaction**	***For the year ended 31 December 2018 SR '000***	*For the year ended 31 December 2017 SR '000*	*For the year ended 31 December 2016 SR '000*
Ultimate Parent	Expenses re-charged (see note 7 and 8)	-	-	13,343
	Purchases	384	4,020	338,141
	Collections from Company's customers	419	1,958	72,834
Other related parties	Purchases, net	1,761,778	3,187,300	4,634,010
	Advertisement expenses	2,232	36,655	36,248
	Expenses charged by affiliates, net (see note 7 and 8)	32,551	43,803	41,060
	Sales commission	-	16,067	22,241
	Supports received (rebates)	188,590	512,013	489,673
	Charges for customer evaluations prior to lease	8,490	11,204	10,647
	Repair services	-	24,500	89,481
	Volume based incentive	-	23,527	-
	Amounts collected on behalf of an affiliate	21,107	13,444	102,932
	Purchase of land from an affiliate	-	12,270	-

22 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

ii) Due from related parties comprised the following:

	31 December 2018 SR '000	*31 December 2017 SR '000*	*31 December 2016 SR '000*
Abdul Latif Jameel Imports and Distribution Company	**8,677**	28,862	-
Abdul Latif Jameel Bodywork and Paint Company Limited	**920**	492	-
Abdul Latif Jameel Insurance Agency Company	**581**	-	-
Bab Rizq Jameel Micro Finance Company	**581**	-	-
Abdul Latif Jameel Technology Products Company Limited	**493**	-	-
Abdul Latif Jameel Insurance Brokerage Company	**118**	-	
Abdul Latif Jameel Summit Company Limited	**1**	195	2
Abdul Latif Jameel Company Limited	-	-	6,391
United Instalment Sales Company Limited ("Ultimate Parent")	-	393	-
	11,371	29,942	6,393

iii) Due to related parties comprised the following:

	31 December 2018 SR '000	*31 December 2017 SR '000*	*31 December 2016 SR '000*
Abdul Latif Jameel Retail Company Limited	**115,802**	52,121	114,055
Abdul Latif Jameel Used Cars Company Limited	-	13	22,315
Abdul Latif Jameel Automotive Wholesale Company Limited	-	94,882	94,068
Salim Saleh Saeed Babqui Trading Company Limited	**15,725**	17,872	20,879
Abdul Latif Jameel Bodywork and Paint Company Limited	-	-	4,094
Abdul Latif Jameel Company Limited	**1,697**	1,844	-
Abdul Latif Jameel Insurance Agency Company	**-**	-	78
Abdul Latif Jameel Technology Products Company Limited	-	5,593	2,942
United Instalment Sales Company Limited ("Ultimate Parent")	**613**	-	1,169
Abdul Latif Jameel Company for Information and Services Limited	**1,064**	1,113	1,310
Abdul Latif Jameel Lands Company Limited	**891**	331	612
Al Mumaizah United Commerce Company Limited	**61**	-	-
Abdul Latif Jameel for Advertising Services Company Limited	**52**	113	310
Abdul Latif Jameel United Real Estate Finance Company	**22**	22	244
	135,927	173,904	262,076

22 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

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

	For the year ended 31 December 2018 SR '000	*For the year ended 31 December 2017 SR '000*	*For the year ended 31 December* 2016 *SR '000*
Directors' remuneration	**3,857**	4,019	5,257
Short-term employee benefits	**12,000**	12,000	14,000
Employee benefits liabilities	**280**	265	315
	16,137	16,284	19,572

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

23 DIVIDEND

On 18 March 2018 (corresponding to 1 Rajab 1439H), the Shareholders of the Company in their annual meeting approved to distribute dividend amounting to SR 235.2 million (SR 1.38 per share) out of the retained earnings. The dividend has been paid in full to the shareholders.

Further, on 12 April 2018 (corresponding to 26 Rajab 1439H), ALJUF obtained No Objection Letter from Saudi Arabian Monetary Authority (SAMA) for declaration of dividend of SR 1.32 per share amounting to SR 224.3 million. The shareholders of the Company approved the distribution of the dividend on 26 December 2018. The dividend has been recorded as 'dividend payable' under 'Accounts payable, accrued and other liabilities' (see note 21).

24 OPERATING LEASE ARRANGEMENTS

The Company as lessee

Future minimum rentals payable under non-cancellable operating leases as at 31 December are, as follows:

	2018 SR '000	*2017 SR '000*	*2016 SR'000*
Payments under operating leases recognized as an expense during the year	**12,496**	10,288	11,231

Operating lease payments represent rentals payable by the Company for certain office properties. Leases are negotiated for an average renewable term of 1 year and rentals are fixed for the same period.

25 NON-CASH TRANSACTIONS

	For the year ended 31 December 2018 SR '000	*For the year ended 31 December 2017 SR '000*
Net actuarial gains recognized directly in other comprehensive income (see notes 20.1 and 20.2)	**1,032**	33,559
Employee benefits liabilities transferred out, net (notes 20.1 and 20.2)	**987**	974
Capital work in progress transferred to the intangible assets (note 10 and 11)	-	19,175
Effect of reclassification of notes receivable from amortized cost to fair value through other comprehensive income	**57,305**	-

26 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's significant financial liabilities include, due to related parties, accounts payable and other liabilities, payable under purchase and agency agreements and amount due to insurer, and are initially measured at fair value and thereafter stated at their amortized cost. Financial assets comprises of cash and bank balances, net investment in finance lease, notes receivable, due from related parties, net deferred consideration receivable, employees' receivables, amount due from insurer and other receivables and are initially measured at fair value and thereafter stated at cost or amortized cost as reduced by allowance for doubtful receivables and impairment, if any.

The Company is exposed to interest rate risk, liquidity risk, credit risk and currency risk. The Company's senior management oversees the management of these risks. The Company's senior management is supported by the Group's Treasury Department under a Service Level Agreement that advises on the financial risks and the appropriate financial risk governance framework. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarized below.

Market risk

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

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Before entering into purchase and agency arrangements with banks, the Company is exposed to interest rate fair value risk on its financial assets to be sold. The Company monitors the market interest rate movements and negotiates the terms of the agreements with various banks and the majority of the receivables are sold to the banks. The Company has realized gains on sale of these financial assets.

The Company is also exposed to interest rate cash flow risk mainly on its short-term deposits. The effective interest rate on short-term deposits is 2.36% (31 December 2017: 1.29 %) (31 December 2016: 1.47%).

The following table demonstrates the change in the value of short-term deposits due to fluctuation of 10 basis points in interest rate. With all other variables held constant, the Company's annual profit is affected through the impact on floating rate short-term deposits, as follows:

	Effect on profit SR '000
31 December 2018	
SR	(3,789)
SR	3,789
31 December 2017	
SR	(3,248)
SR	3,248
31 December 2016	
SR	(2,829)
SR	2,829

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

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

26 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

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

31 December 2018	***Within 1 year SR'000***	***Interest bearing 1 to 5 years SR'000***	***Over 5 years SR'000***	***Non-interest bearing SR'000***	***Total SR'000***
Assets					
Property and equipment	-	-	-	69,338	**69,338**
Intangible assets	-	-	-	15,123	**15,123**
Investment classified as FVOCI	-	-	-	893	**893**
Net investment in finance lease	503,390	776,124	-	-	**1,279,514**
Notes receivable	37,729	438,369	-	-	**476,098**
Other non-current assets	-	-	-	38,182	**38,182**
Inventories	-	-	-	19,018	**19,018**
Prepayments and other receivables	-	-	-	85,194	**85,194**
Due from related parties	-	-	-	11,371	**11,371**
Cash and bank balances	3,772,291	-	-	169,830	**3,942,121**
Total Assets	**4,313,410**	**1,214,493**	-	**408,949**	**5,936,852**
Liabilities					
Employee benefits liabilities	-	-	-	96,566	96,566
Other non-current liability	-	-	-	11,480	11,480
Accounts payable, accrued and other liabilities	-	-	-	1,771,298	1,771,298
Due to related parties	-	-	-	135,927	135,927
Total liabilities	-	-	-	**2,015,271**	**2,015,271**
Gap	**4,313,410**	**1,214,493**	-	**(1,606,322)**	**3,921,581**

26 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

31 December 2017 *(restated)*	*Interest bearing* Within 1 year SR'000	*1 to 5 years SR'000*	*Over 5 years SR'000*	*Non-interest bearing SR'000*	*Total SR'000*
Assets					
Property and equipment	-	-	-	79,830	79,830
Intangible assets	-	-	-	18,191	18,191
Investment classified as FVOCI	-	-	-	893	893
Net investment in finance lease	505,748	1,275,118	-	-	1,780,866
Notes receivable	143,222	312,277	-	-	455,499
Other non-current assets	-	-	-	56,109	56,109
Inventories	-	-	-	39,045	39,045
Prepayments and other receivables	-	-	-	131,373	131,373
Due from related parties	-	-	-	29,942	29,942
Cash and bank balances	3,248,055	-	-	411,056	3,659,111
Total Assets	3,897,025	1,587,395	-	766,439	6,250,859
Liabilities					
Employee benefits liabilities	-	-	-	128,858	128,858
Other non-current liability	-	-	-	21,431	21,431
Accounts payable, accrued and other liabilities	-	-	-	1,887,818	1,887,818
Due to related parties	-	-	-	173,904	173,904
Total liabilities	-	-	-	2,212,011	2,212,011
Gap	3,897,025	1,587,395	-	(1,445,572)	4,038,848

26 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

31 December 2016	*Interest bearing*			*Non-interest*	
	Within 1 year	*1 to 5 years*	*Over 5 years*	*bearing*	*Total*
	SR'000	*SR'000*	*SR'000*	*SR'000*	*SR'000*
Assets					
Property and equipment	-	-	-	81,119	81,119
Net investment in finance lease	612,906	1,546,186	-	-	2,159,092
Notes receivable	63,305	131,953	-	-	195,258
Other non-current assets	-	-	-	125,451	125,451
Inventories	-	-	-	212,121	212,121
Prepayments and other receivables	-	-	-	230,668	230,668
Due from related parties	-	-	-	6,393	6,393
Cash and bank balances	3,066,422	-	-	197,887	3,264,309
Total Assets	3,742,633	1,678,139	-	853,639	6,274,411
Liabilities					
Employee benefits liabilities	-	-	-	177,412	177,412
Other non-current liability	-	-	-	42,469	42,469
Accounts payable, accrued and other liabilities	-	-	-	2,024,818	2,024,818
Due to related parties	-	-	-	262,076	262,076
Total liabilities	-	-	-	2,506,775	2,506,775
Gap	3,742,633	1,678,139	-	(1,653,136)	3,767,636

26 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

Currency risk
Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. All of the purchases and sales of the Company are made in Saudi Riyals. As the Company did not undertake significant transactions in currencies other than Saudi Riyals and US Dollars, during the year, and the historical empirical data shows that US Dollar and Saudi Riyal are pegged, hence, the Company was not exposed to any significant currency risk.

The Company had the following amounts deposited in international banks outside Saudi Arabia denominated in foreign currency:

	2018	*2017*	*2016*
	SR '000	*SR '000*	*SR '000*
US Dollar	-	-	1,130,552

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

Liquidity risk
Liquidity risk is the risk that the Company will be unable to meet its net funding requirements. This risk is managed through sale of receivables to different banks as disclosed in note 27. The average credit period on purchases of vehicles from an affiliate and third parties is up to one month. No interest is charged on the accounts payable. Liquidity requirements are monitored on a regular basis and management ensures that sufficient funds are available to meet any commitments as they arise.

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

26 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Maturity analysis of assets and liabilities as per management estimation

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

	Fixed maturity				
31 December 2018	***Within 1 year SR'000***	***1 to 5 years SR'000***	***Over 5 years SR'000***	***No fixed maturity SR'000***	***Total SR'000***
Assets					
Property and equipment	-	-	-	69,338	**69,338**
Intangible assets	-	-	-	15,123	**15,123**
Investment classified as FVOCI	-	-	-	893	**893**
Net investment in finance lease	503,390	776,124	-	-	**1,279,514**
Notes receivable	37,729	438,369	-	-	**476,098**
Other non-current assets	-	38,182	-	-	**38,182**
Inventories	19,018	-	-	-	**19,018**
Prepayments and other receivables	85,194	-	-	-	**85,194**
Due from related parties	11,371	-	-	-	**11,371**
Cash and bank balances	3,942,121	-	-	-	**3,942,121**
Total assets	**4,598,823**	**1,252,675**	-	**85,354**	**5,936,852**
Liabilities					
Employee benefits liabilities	96,566	-	-	-	**96,566**
Other non-current liability	-	11,480			**11,480**
Accounts payable, accrued and other liabilities	1,771,298	-	-	-	**1,771,298**
Due to related parties	135,927	-	-	-	**135,927**
Total liabilities	**2,003,791**	**11,480**	-	-	**2,015,271**

26 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

	Fixed maturity				
31 December 2017 (restated)	*Within 1 year*	*1 to 5 years*	*Over 5 years*	*No fixed maturity*	*Total*
	SR'000	*SR'000*	*SR'000*	*SR'000*	*SR'000*
Assets					
Property and equipment	-	-	-	79,830	79,830
Intangible assets	-	-	-	18,191	18,191
Investment classified as FVOCI	-	-	-	893	893
Net investment in finance lease	505,748	1,275,118	-	-	1,780,866
Notes receivable	143,222	312,277	-	-	455,499
Other non-current assets	-	56,109	-	-	56,109
Inventories	39,045	-	-	-	39,045
Prepayments and other receivables	131,373	-	-	-	131,373
Due from related parties	29,942	-	-	-	29,942
Cash and bank balances	3,659,111	-	-	-	3,659,111
Total assets	4,508,441	1,643,504	-	98,914	6,250,859
Liabilities					
Employee benefits liabilities	128,858	-			128,858
Other non-current liability	-	21,431	-	-	21,431
Accounts payable, accrued and other liabilities	1,887,818	-	-	-	1,887,818
Due to related parties	173,904	-	-	-	173,904
Total liabilities	2,190,580	21,431	-	-	2,212,011

26 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

31 December 2016	*Fixed maturity*				
	Within 1 year	*1 to 5 years*	*Over 5 years*	*No fixed maturity*	*Total*
	SR'000	*SR'000*	*SR'000*	*SR'000*	*SR'000*
Assets					
Property and equipment	-	-	-	81,119	81,119
Net investment in finance lease	612,906	1,546,186	-	-	2,159,092
Notes receivable	63,305	131,953	-	-	195,258
Other non-current assets	-	125,451	-	-	125,451
Inventories	212,121	-	-	-	212,121
Prepayments and other receivables	230,668	-	-	-	230,668
Due from related parties	6,393	-	-	-	6,393
Cash and bank balances	3,030,868	-	-	233,441	3,264,309
Total assets	4,156,261	1,803,590	-	314,560	6,274,411
Liabilities					
Employee benefits liabilities	-	-	-	177,412	177,412
Other non-current liability	-	42,469	-	-	42,469
Due to related parties	262,076	-	-	-	262,076
Accounts payable, accrued and other liabilities	1,793,165	-	-	231,653	2,024,818
Total liabilities	2,055,241	42,469	-	409,065	2,506,775

26 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk and concentration of credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk on cash and bank balances, net investment in finance lease, notes receivable, due from related parties, net deferred consideration receivable, employees' receivables, amount due from insurer and other receivables. The Company has established procedures to manage credit exposure including, credit approvals, credit limits, collateral and guarantee requirements. These procedures are based on the Company's internal guidelines.

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

The Company manages concentration of credit risk exposure through diversification of activities and sale of eligible notes receivable and future net investment in finance lease receivables to different banks through purchase and agency agreements. However, the Company mitigates its credit risk through evaluation of credit worthiness through one of its affiliate (see note 22) and by obtaining promissory notes and by retaining the title of the vehicle leased out. For certain types of customers, the maximum credit limits are defined. An allowance for doubtful finance lease and notes receivable is maintained at a level which, in the judgment of management, is adequate to provide for impairment losses on delinquent receivables.

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

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

Credit quality analysis

i) Financial assets carried at fair value through other comprehensive income (FVOCI)

The following tables set out information about the credit quality of financial assets measured at fair value through other comprehensive income as at 31 December 2018. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

a) Gross carrying amounts

	31 December 2018			
	12 month ECL SR '000	*Lifetime ECL not credit impaired SR '000*	*Lifetime ECL credit impaired SR '000*	*Total SR '000*
Notes receivable carried at fair value through other comprehensive income	**398,300**	**16,230**	**9,064**	**423,594**

b) Allowance for ECL

	31 December 2018			
	12 month ECL SR '000	*Lifetime ECL not credit impaired SR '000*	*Lifetime ECL credit impaired SR '000*	*Total SR '000*
Notes receivable carried at fair value through other comprehensive income	**13,311**	**3,261**	**16,123**	**32,695**

26 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk and concentration of credit risk (continued)

Credit quality analysis (continued)

ii) Financial assets, carried at amortized cost

The following tables set out information about the credit quality of financial assets measured at amortised cost as at 31 December 2018 and 1 January 2018. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

a) Gross carrying amounts

	31 December 2018			
	12 month ECL SR '000	***Lifetime ECL not credit impaired SR '000***	***Lifetime ECL credit impaired SR '000***	***Total SR '000***
Net investment in finance lease	1,659,962	33,552	88,228	1,781,742
Notes receivable carried at amortized cost	56,555	1,702	3,395	61,652
Carrying amount	**1,716,517**	**35,254**	**91,623**	**1,843,394**

	1 January 2018			
	12 month ECL SR '000	*Lifetime ECL not credit impaired SR '000*	*Lifetime ECL credit impaired SR '000*	*Total SR '000*
Net investment in finance lease	2,277,861	31,445	99,196	2,408,502
Notes receivable, carried at amortized cost	553,375	22,013	15,488	590,876
Carrying amount	2,831,236	53,458	114,684	2,999,378

b) Allowance for ECL

	31 December 2018			
	12 month ECL SR '000	***Lifetime ECL not credit impaired SR '000***	***Lifetime ECL credit impaired SR '000***	***Total SR '000***
Net investment in finance lease	52,536	10,407	128,843	191,786
Notes receivable, carried at amortized cost	1,404	244	2,243	3,891
	53,940	**10,651**	**131,086**	**195,677**

	1 January 2018			
	12 month ECL SR '000	*Lifetime ECL not credit impaired SR '000*	*Lifetime ECL credit impaired SR '000*	*Total SR '000*
Net investment in finance lease	48,443	9,661	120,444	178,548
Notes receivable, carried at amortized cost	1,829	2,167	7,337	11,333
	50,272	**11,828**	**127,781**	**189,881**

26 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk and concentration of credit risk (continued)

Credit quality analysis (continued)

Amounts arising from ECL – Significant increase in credit risk
When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and expert credit assessment and including forward-looking information. The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure based on approved stages of criteria.

Credit risk grades
The Company allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

a) Generating the term structure of PD
Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Company collects performance and default information about its credit risk exposures analyzed by type of product and borrower as well as by credit risk grading. For some portfolios, information obtained from external credit reference agencies is also used.

The Company employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and macro-economic factors include oil prices, inflation, manufacturing purchasing manager's index, money supply etc. For exposures to specific industries and/or regions, the analysis may extend to relevant commodity and/or real estate prices.

Based on external actual and forecast information, the Company formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios (see discussion below on incorporation of forward-looking information). The Company then uses these forecasts to adjust its estimates of PDs.

b) Determining whether credit risk has increased significantly
The criteria for determining whether credit risk has increased significantly include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

The credit risk of a particular exposure is deemed to have increased significantly since initial recognition, which is determined under basis of Company's staging criteria.

Using its expert credit judgment and, where possible, relevant historical experience, the Company may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Company considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

26 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk and concentration of credit risk (continued)

Credit quality analysis (continued)

b) Determining whether credit risk has increased significantly (continued)
The Company monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

c) Modified financial assets
The contractual terms of finance lease and notes receivables may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing financing and advances whose terms have been modified may be derecognised and the renegotiated financing and advances recognised as a new financing and advances at fair value in accordance with the accounting policy.

When the terms of finance lease and notes receivables are modified and the modification does not result in de-recognition, the determination of whether the asset's credit risk has increased significantly is completed on the basis of the approved staging criteria.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of leasing and instalments covenants.

d) Definition of 'Default'
A default is considered to have occurred with regard to a particular obligor when either or both of the two following events have taken place:

- The obligor is past due for 90 days or more on any material credit obligations to the Company including principal instalments, interest payments and fees.

- The Company considers that the obligor is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any).

The definition of default largely aligns with that applied by the Company for regulatory capital purposes.

e) Incorporation of forward looking information
The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from the external actual and forecast information, the Company formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and monetary authorities in the Kingdom of Saudi Arabia and selected private sector and academic forecasters.

The Company has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

26 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk and concentration of credit risk (continued)

Credit quality analysis (continued)

f) Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated, based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally and externally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The Company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations.

The Company measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Company considers a longer period. The maximum contractual period extends to the date at which the Company has the right to require repayment of an advance or terminate a finance lease and notes receivables arrangement.

g) Governance and controls

In addition to the existing risk management framework, the Company has established a Steering Committee for oversight of IFRS 9 impairment process that includes representation from Finance, Risk and Information Technology (IT), as well as the involvement of subject matter experts in the areas of methodology reviews, data sourcing, risk modelling, and formulating judgements with respect to the aspects of significant increase in credit risk determination, macroeconomic assumptions and forward looking factors. The Framework and related controls have been approved by the board of directors.

Capital Management

The Company's capital management objectives are to ensure the Company's ability to continue as a going concern and to provide adequate return to its shareholders through the optimization of the capital structure. The Company manages the capital structure and makes adjustments in the light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. No changes were made in the capital structure in the years 2018 and 2017.

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.

	31 December 2018	*31 December 2017 (restated)*
Aggregate financing to capital ratio (Total financing(net investment in finance lease and notes receivable) divided by total shareholders' equity)	**0.45 times**	0.55 times

27 PURCHASE AND AGENCY AGREEMENTS

The Company has entered into purchase and agency agreements (the "agreements") with certain local banks in respect of certain finance lease and notes receivable (collectively referred as "receivables").

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

During the year ended 31 December 2018, the Company sold SR 3,131 million of its net receivables (31 December 2017: SR 4,945 million) (31 December 2016: SR 6,518 million) and the total amount received from the bank in respect of such sale was SR 3,306 million (31 December 2017: SR 5,218 million) (31 December 2016: SR 6,773 million). Upon sale, the Company derecognises the receivables from its books and recognises the difference as either gain or loss on derecognition of receivables (see note c).

The following are the significant terms of the agreement:

a) The Company continues to manage the sold receivables on behalf of the banks for a fee (agency fee). The total settlement of net receivables to be made to the banks as an agent (as per the agreed cash flows) under purchase and agency arrangements amount to SR 9,963 million as of 31 December 2018 (31 December 2017: SR 12,959 million) (31 December 2016: SR 14,803 million). The maturity analysis of derecognised receivables is as follows:

Under purchase and agency agreements	*Upto 1 year SR '000*	*2 – 3 years SR '000*	*after 3 years SR '000*	***Total SR '000***
31 December 2018	**4,886,190**	**3,860,675**	**1,216,576**	**9,963,441**
31 December 2017	5,950,853	5,993,287	1,015,328	12,959,468
31 December 2016	6,919,584	7,108,695	774,269	14,802,548

b) Each agreement is supported by a "cash flow statement" which stipulates the principal amount and the monthly receivables falling due. Under the terms of the agreements, the Company, in the capacity of an agent, settles to the banks monthly amount based on the cash flow statement. Any excess collections over and above the stipulated amounts and after retaining the amount for the next month's repayment are transferred monthly by the Company to the banks. The amount of the next month's repayment is recognised as a liability and included in payable under purchase and agency agreements (see note 21).

c) A reserve is to be maintained out of the monthly receipts, which is to be distributed at the end of the term of the agreements after deducting the actual defaults and discounts on premature terminations. The balance in the reserve account after deducting the actual defaults and discounts shall be retained by the Company as deferred consideration on sale of receivables. Any shortfall in the reserve account is to be borne by the banks.

During the year ended 31 December 2018, the Company made gain amounting to SR 194.1 million (31 December 2017: SR 335.7 million) (31 December 2016: SR 375.9 million) on derecognition of receivables sold to the banks under the agreements, which is calculated as follows:

27 PURCHASE AND AGENCY AGREEMENTS (continued)

	For the year ended 31 December 2018 SR '000	*For the year ended 31 December 2017 SR '000*	*For the year ended 31 December 2016 SR '000*
Gross amount of receivables	**3,971,344**	6,245,912	8,091,302
Less: deferred finance income	**(840,571)**	(1,301,307)	(1,573,401)
Less: present value of deferred consideration receivable (see note i)	**-**	-	(65,414)
Less: present value of net servicing liability (see note ii)	**(18,835)**	(62,287)	(55,892)
Less: amounts received from the banks	**(3,306,000)**	(5,218,000)	(6,772,500)
Net gain on derecognition of receivables	**194,062**	335,682	375,905

During the year, certain purchase and agency agreements (lease and notes receivables), previously entered into by the Company, have matured and the Company has recorded a net gain amounting to SR 104.9 million after deducting the actual customer defaults and discounts on premature terminations and has obtained the final settlement and discharge letters from the banks with respect to these agreements (31 December 2017: 106.6 million).

The total gain on derecognized receivables for the year is as follows:

	For the year ended 31 December 2018 SR'000	*For the year ended 31 December 2017 SR'000*
Gain on derecognition of receivables	194,062	335,682
Gain on closure of derecognized pools upon maturity	104,931	106,562
	298,993	442,244

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

	31 December 2018 SR'000	*31 December 2017 SR'000*	*31 December 2016 SR'000*
Present value of deferred consideration receivable	**482,601**	630,331	736,635
Less: provision against expected defaults in respect of sold finance lease and notes receivable	**(482,600)**	(630,299)	(599,164)
	1	32	137,471
Less: current portion (see note 16)	**(1)**	(32)	(67,316)
Non-current portion (see note 15)	-	-	70,155

As on 31 December 2018, for the expired period of the agreed cash flows under the purchase and agency agreement, the Company has made provision for expected defaults and early termination of SR 712.6 million (31 December 2017: SR 773.3 million) (31 December 2016: SR 750.7 million) (see note 21)

27 PURCHASE AND AGENCY AGREEMENTS (continued)

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

	31 December 2018 SR'000	*31 December 2017 SR'000 (restated)*	*31 December 2016 SR'000*
Present value of net servicing assets	**28,808**	45,009	38,338
Less: current portion (see note 16)	**-**	-	-
Non-current portion (see note 15)	**28,808**	45,009	38,338
Present value of net servicing liability	**44,203**	61,169	106,429
Less: current portion (see note 21)	**(32,723)**	(39,738)	(63,960)
Non-current portion (disclosed as other non-current liabilities)	**11,480**	21,431	42,469

The present value of net deferred consideration receivable and the present value of net servicing asset and net servicing liability is calculated by using the appropriate discount rate (see note 2(d)).

28 RESTATEMENT OF PRIOR YEAR FIGURES

The Company's management has restated the comparative financial information on account of the following:

a) During the year ended 31 December 2017, the management of the Company did not record certain transactions relating to insurance arrangements and present value of net servicing assets, having net financial impact of SR 5.31 million (see below). As a result of this error, the net income for the year ended 31 December 2017 and retained earnings as at 31 December 2017 were understated by the same amount; and

b) As at 31 December 2016, the management of the Company erroneously included an amount of SR 132.54 million under 'accrued expenses and zakat payable' (see note 21). In order to adjust the balances, the management has restated the comparative amounts which resulted in reduction of 'accrued expenses and zakat payable' by SR 132.54 million, with corresponding increase in 'retained earnings' as at the ended 31 December 2017 and 2016. This adjustment did not have any impact on net income for the year ended 31 December 2017.

The impact of the above adjustments on the statement of comprehensive income and statement of financial position is summarized below:

Statement of comprehensive income	*31 December 2017 SR'000*
Net income for the year	
Net income, as previously reported	284,252
Adjustment relating to insurance arrangements under 'direct cost' (note 6) (see note 'a' above)	20,560
Adjustment relating to present value of net servicing liability under 'net change in present value of assets and liabilities relating to derecognised receivables' (see note 'a' above)	(15,250)
Net income, as restated	289,562

28 RESTATEMENT OF PRIOR YEAR FIGURES (continued)

Statement of financial position

	31 December 2017 SR'000
Prepayments and other receivables	
Balance, as previously reported	110,813
Adjustment relating to insurance arrangements (see note 'a' above)	20,560
Balance, as restated	131,373
Other non-current assets	
Balance, as previously reported	64,888
Adjustment relating to present value of net servicing asset (see note 'a' above)	(8,779)
Balance, as restated	56,109
Other non-current liability	
Balance, as previously reported	16,129
Adjustment relating to present value of net servicing liability (see note 'a' above)	5,302
Balance, as restated	21,431

	31 December 2017 SR'000	*31 December 2016 SR'000*
Accounts payable, accrued and other liabilities		
Balance, as previously reported	2,019,187	2,157,356
Adjustment relating to accrued expenses and zakat payable (see note 'b' above)	(132,538)	(132,538)
Adjustment relating to present value of net servicing liability (see note 'a' above)	1,169	-
Balance, as restated	1,887,818	2,024,818
Retained earnings		
Balance, as previously reported	1,942,050	1,738,132
Adjustment relating to accrued expenses and zakat payable (see note 'b' above)	132,538	132,538
Adjustment relating to insurance arrangements under 'direct cost' (see note 'a' above)	20,560	-
Adjustment relating to present value of net servicing liability under 'net change in present value of assets and liabilities relating to derecognised receivables' (see note 'a' above)	(15,250)	-
Balance, as restated	2,079,898	1,870,670

29 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial assets consist of cash and bank balances, net investment in finance lease, notes receivable, due from related parties, net deferred consideration receivable, employees' receivables, amount due from insurer and other receivables. Its financial liabilities consist of due to related parties, accounts payable, payable under purchase and agency agreements and amount due to Insurer.

The fair values of the financial instruments are not materially different from their carrying values except for the net investment in finance lease and notes receivable portfolio measured at amortized cost.

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

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole, as follows:

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.

The following table provides the fair value measurement hierarchy of the Company's financial assets as at 31 December 2018.

31 December 2018		**Fair value measurement using**		
	Total SR'000	***Quoted prices in active market (Level 1) SR'000***	***Significant observable inputs (Level 2) SR'000***	***Significant unobservable inputs (Level 3) SR'000***
Financial assets measured at fair value				
Notes receivable classified as fair value through other comprehensive income	**423,594**	-	-	**423,594**
Investment classified as fair value through other comprehensive income	**893**	-	-	**893**

31 December 2017		**Fair value measurement using**		
	Total SR'000	*Quoted prices in active market (Level 1) SR'000*	*Significant observable inputs (Level 2) SR'000*	*Significant unobservable inputs (Level 3) SR'000*
Financial assets measured at fair value				
Investment classified as fair value through other comprehensive income	893	-	-	893

There were no transfers between level 1 and level 2 during the year ended 31 December 2018. (31 December 2017: Nil).

There were no reconciling items during the year ended 31 December 2018 for level 3 fair values.

30 EVENTS AFTER THE REPORTING YEAR

i) Subsequent to the year end, the Company executed a purchase and agency agreement with a local commercial bank in respect of certain finance lease and notes receivables. Under the terms of the purchase and agency agreement, the Company sold the eligible receivables to the bank net of insurance premiums and undertook to manage them on behalf of the bank as an agent for a monthly fee as per the terms of the purchase and agency agreement. The Company sold SR 202.3 million of its net finance lease and notes receivables.

ii) Subsequent to the year end, the Company has obtained No Objection letter from Saudi Arabian Monetary Authority (SAMA) for declaration of dividend of SR 4.7 per share amounting to SR 800 million for the year ended 2018.

31 BOARD OF DIRECTORS' APPROVAL

These financial statements were approved by the Board of Directors on 19 February 2019 (corresponding to 14 Jumada II 1440H).