GULF FINANCE CORPORATION
(A Saudi Closed Joint Stock Company)

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
AND INDEPENDENT AUDITORS' REPORT

GULF FINANCE CORPORATION
(A Saudi Closed Joint Stock Company)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

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Independent auditor's report to the shareholders of Gulf Finance Corporation

Report on the audit of the financial statements

Our opinion

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

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at December 31, 2017;
- the statement of comprehensive income for the year then ended;
- the statement of changes in shareholders' equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing that are 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

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

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

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

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

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Independent auditor's report to the shareholders of Gulf Finance Corporation (continued)

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 International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, 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.

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Independent auditor's report to the shareholders of Gulf Finance Corporation (continued)

Report on other legal and regulatory requirements

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

PricewaterhouseCoopers

Mufaddal Ali
License Number 447

February 26, 2018

برايس وترهاوس كوبرز
محاسبون قانونيون
ترخيص رقم ٢٥
س.ت ٤٠٣٠٢٨٩٠٠٢
PRICE WATER HOUSE COOPERS
CERTIFIED PUBLIC ACCOUNTANTS
LICENSE NO. 25
C.R. 4030289002

GULF FINANCE CORPORATION
(A Saudi Closed Joint Stock Company)
Statement of financial position
(All amounts in Saudi Riyals unless otherwise stated)

	Note	As at December 31, 2017	2016
Assets			
Current assets			
Cash and cash equivalents	5	**7,599,264**	6,689,442
Investment in finance lease-current portion	6	**83,385,514**	112,515,764
Advances, deposits, prepayments and other receivables	7	**8,970,572**	5,730,018
Derivative financial instruments	8	**-**	1,618
		99,955,350	124,936,842
Non-current assets			
Restricted deposits	13	**2,064,050**	7,402,343
Investment in finance lease-non-current portion	6	**33,095,372**	74,604,982
Property and equipment	9	**1,085,451**	1,673,558
Intangible assets	10	**2,200,281**	2,976,312
Available-for-sale investment	11	**892,850**	-
Derivative financial instruments	8	**-**	7,464
		39,338,004	86,664,659
Total assets		**139,293,354**	211,601,501
Shareholders' equity and liabilities			
Shareholders' equity			
Share capital	1	**100,000,000**	100,000,000
Statutory reserve	12	**676,668**	648,578
Retained earnings		**5,815,607**	5,837,199
Total shareholders' equity		**106,492,275**	106,485,777
Liabilities			
Current liabilities			
Current portion of long-term borrowings	13	**25,887,793**	49,400,437
Accounts payable		**441,786**	3,416,614
Due to related parties	14	**3,170,230**	20,413,872
Provision for zakat	15	**300,000**	92,504
Other liabilities and accruals	16	**1,941,805**	4,702,104
Derivative financial instruments	8	**62,597**	-
		31,804,211	78,025,531
Non-current liabilities			
Long-term borrowings	13	**211,940**	25,897,818
Post-employment benefits	17	**754,315**	730,466
Derivative financial instruments	8	**30,613**	461,909
		996,868	27,090,193
Total liabilities		**32,801,079**	105,115,724
Total shareholders' equity and liabilities		**139,293,354**	211,601,501

The notes on pages from 8 to 27 form an integral part of these financial statements.

GULF FINANCE CORPORATION
(A Saudi Closed Joint Stock Company)
Statement of comprehensive income
(All amounts in Saudi Riyals unless otherwise stated)

	Note	Year ended December 31, 2017	2016 Restated
Income			
Income from finance lease		**18,305,478**	31,437,028
Processing fee and other operating income		**928,414**	1,306,000
Other income		**467,454**	835,381
Total income		**19,701,346**	33,578,409
Expenses			
Finance charges, net	19	**(4,896,827)**	(9,408,072)
Other operating costs	20	**(3,337,609)**	(4,317,999)
General and administrative expenses	21	**(13,158,785)**	(17,248,191)
Impairment reversed / (charged) on investment in finance lease	6	**1,972,777**	(2,316,958)
Total expenses		**(19,420,444)**	(33,291,220)
Profit for the year		**280,902**	287,189
Other comprehensive income		**-**	-
Total comprehensive income for the year		**280,902**	287,189

The notes on pages from 8 to 27 form an integral part of these financial statements.

GULF FINANCE CORPORATION
(A Saudi Closed Joint Stock Company)
Statement of changes in shareholders' equity
(All amounts in Saudi Riyals unless otherwise stated)

	Note	Share capital	Statutory reserve	Retained earnings	Total
Balance as at January 1, 2016		100,000,000	628,994	5,660,941	106,289,935
Total comprehensive income for the year (as restated)	23	-	-	287,189	287,189
Zakat charge for the year (as restated)	23	-	-	(91,347)	(91,347)
Transfer to statutory reserve		-	19,584	(19,584)	-
Balance as at December 31, 2016		100,000,000	648,578	5,837,199	106,485,777
Total comprehensive income for the year		**-**	**-**	**280,902**	**280,902**
Transfer to statutory reserve		**-**	**28,090**	**(28,090)**	**-**
Zakat charge for the year	15	**-**	**-**	**(274,404)**	**(274,404)**
Balance as at December 31, 2017		**100,000,000**	**676,668**	**5,815,607**	**106,492,275**

The notes on pages from 8 to 27 form an integral part of these financial statements.

GULF FINANCE CORPORATION
(A Saudi Closed Joint Stock Company)
Statement of cash flows
(All amounts in Saudi Riyals unless otherwise stated)

	Note	Year ended December 31, 2017	2016
Cash flow from operating activities			
Profit before zakat		**280,902**	287,189
Adjustments for:			
Depreciation on property and equipment	9	**594,817**	592,269
Amortization of intangible assets	10	**828,267**	836,468
Impairment (reversed) / charged and write-off of investment in finance lease	6	**(1,972,777)**	2,547,067
Finance charges	19	**5,184,360**	9,408,072
Amortization of deferred charges	13	**512,993**	986,761
Provision for post-employment benefits, net	17	**221,279**	177,146
Interest income		**(138,575)**	(108,299)
Loss on disposal of property and equipment		**-**	960
Changes in working capital			
Advances, deposits, prepayments and other receivables		**189,525**	(104,642)
Restricted deposits		**1,687,172**	(5,928,782)
Accounts payable		**(2,974,828)**	(13,450,455)
Other liabilities and accruals		**(1,766,654)**	(2,975,310)
Cash generated from / (utilized in) operating activities		**2,646,481**	(7,731,556)
Post-employment benefits paid		**(197,430)**	(104,974)
Zakat paid		**(66,908)**	(138,843)
Finance charges paid		**(6,178,005)**	(8,562,806)
Net cash utilized in operating activities		**(3,795,862)**	(16,538,179)
Cash flow from investing activities			
Investment in finance lease		**72,612,637**	5,718,156
Additions to property and equipment	9	**(6,710)**	(818,135)
Additions to intangible assets	10	**(52,236)**	(627,601)
Available-for-sale investment		**(892,850)**	-
Proceeds from disposal of property and equipment		**-**	11,151
Net cash generated from investing activities		**71,660,841**	4,283,571
Cash flow from financing activities			
Proceeds from borrowings		**-**	68,000,000
Repayments during the year		**(49,711,515)**	(55,331,602)
Deferred charges paid during the year		**-**	(980,000)
Due to related parties		**(17,243,642)**	(30,600,842)
Net cash utilized in financing activities		**(66,955,157)**	(18,912,444)
Net change in cash and cash equivalents		**909,822**	(31,167,052)
Cash and cash equivalents at beginning of year		**6,689,442**	37,856,494
Cash and cash equivalents at end of year	5	**7,599,264**	6,689,442

The notes on pages from 8 to 27 form an integral part of these financial statements.

(All amounts in Saudi Riyals unless otherwise stated)

1 General information

Gulf Finance Corporation ("the Company") was a Saudi limited liability company formed under the laws of the Kingdom of Saudi Arabia and registered under the commercial register under No. 4030235277 on Dhul Qa'adah 28, 1433 (corresponding to October 14, 2012). On Sha'ban 26, 1435 (corresponding to September 24, 2014), the shareholders resolved to convert the legal status of the Company from a limited liability company to a closed joint stock company and obtained the necessary approval from the Ministry of Commerce & Industry (MOCI) and the notary public.

On December 15, 2013, and in accordance with the Article 6 of the Implementing Regulations of the Law of Supervision of Finance Companies, the Company submitted its application to Saudi Arabian Monetary Authority (SAMA) to obtain its license as a financing company. On Jumada'II 3, 1435 (corresponding to April 3, 2014), the Company obtained the preliminary approval on the license from SAMA. On Safar 16, 1436 (corresponding to December 8, 2014), the Company obtained the license from SAMA to engage in the finance lease activities.

The share capital of the Company as of December 31, 2017 and December 31, 2016 was comprised of 1,000,000 shares stated at Saudi Riyals 10 per share owned as follows:

	No. of shares	Amount	Percentage of ownership
Shuaa Capital PJSC, a public joint stock company incorporated in the United Arab Emirates	**9,200,000**	**92,000,000**	**92%**
Gulf Finance Corporation PJSC, a private joint stock company incorporated in the United Arab Emirates	**500,000**	**5,000,000**	**5%**
Shuaa 1 for Commercial Brokerage (LLC incorporated in the United Arab Emirates)	**100,000**	**1,000,000**	**1%**
Shuaa 2 for Commercial Brokerage (LLC incorporated in the United Arab Emirates)	**100,000**	**1,000,000**	**1%**
Shuaa 3 for Commercial Brokerage (LLC incorporated in the United Arab Emirates)	**100,000**	**1,000,000**	**1%**
	10,000,000	**100,000,000**	**100%**

The Company's activities include:

(a) Wholesale and retail trade in cars and vehicles, trucks, tankers and heavy equipment, electrical and electronic devices and its spare parts in cash and installment; and

(b) Purchase of land for the construction of buildings and the investment of these buildings by selling or leasing them for the benefit of the Company, provided that the real estate shall be outside the boundaries of Makkah and Madinah.

The Company's head office is in Jeddah. The Company has the following branches:

Branch	CR Number	Date
Riyadh	1010369744	26/5/1434H
Dammam	2050091775	12/07/1434H

The results of operations, assets and liabilities of the above branches are included in the accompanying financial statements.

2. Statement of compliance and basis of preparation

Compliance with IFRS

The financial statements of the Company have been prepared in accordance with 'International Financial Reporting Standards (IFRS) as modified by SAMA for the accounting of zakat and income tax', which requires, adoption of all IFRSs as issued by the International Accounting Standards Board ("IASB") except for the application of International Accounting Standard (IAS) 12 - "Income Taxes" and IFRIC 21 - "Levies" so far as these relate to zakat and income tax. As per the SAMA Circular no. 381000074519 dated April 11, 2017 and subsequent amendments through certain clarifications relating to the accounting for zakat and income tax ("SAMA Circular"), the Zakat and Income tax are to be accrued on a quarterly basis through shareholders equity under retained earnings.

Until 2016, zakat was charged to the statement of comprehensive income. Refer note 3.9 for the accounting policy of zakat and note 23 for the impact of change in the accounting policy resulting from the SAMA Circular.

(All amounts in Saudi Riyals unless otherwise stated)

2. Statement of compliance and basis of preparation (continued)

Historical cost convention

The financial statements have been prepared on a historical cost basis except for the derivative financial instruments that are stated at fair value.

2.1 Adoption of new and revised standards

New IFRS, International Financial Reporting and Interpretations Committee's interpretations (IFRIC) and amendments thereof, adopted by the Company

The Company has adopted the following amendments and revisions to existing standards, if any, which were issued by the International Accounting Standards Board (IASB) effective for the financial reporting period commencing on or after January 1, 2017:

Standard	***Description***
IAS 7	Amendments to IAS 7, Statement of cash flows on disclosure initiative. These amendments to IAS 7 introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities
Annual improvements 2014–2016	
IFRS 12	'Disclosure of interests in other entities' regarding clarification of the scope of the standard. This amendment clarifies that the disclosures requirement of IFRS 12 are applicable to interest in entities classified as held for sale except for summarized financial information

The adoption of the relevant new and amended standards and interpretations applicable to the Company did not have any significant impact on these financial statements.

New standards, amendments to the published approved accounting standards and new interpretations that are not yet effective and have not been early adopted by the Company

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. The listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt these standards when they become effective.

Standard/ Interpretation	***Description***	***Effective from periods beginning on or after***
IFRS 2	Amendments to IFRS 2, 'Share based payments', on clarifying how to account for certain types of share-based payment transactions	January 1, 2018
IFRS 9	Financial instruments	January 1, 2018
IFRS 15	Revenue from contracts with customers	January 1, 2018
IAS 40	Amendment to IAS 40, 'Investment property' relating to transfers of investment property	January 1, 2018
IFRS 16	Leases	January 1, 2019
Annual improvements 2014–2016:		
IFRS 1	'First-time adoption of IFRS', regarding the deletion of short term exemptions for first-time adopters regarding IFRS 7, IAS 19, and IFRS 10	January 1, 2018
IAS 28	'Investments in associates and joint ventures' regarding measuring an associate or joint venture at fair value	January 1, 2018
IFRIC 22	'Foreign currency transactions and advance considerations'	January 1, 2018

The Company has chosen not to early adopt the aforementioned new standards which have been issued but not yet effective for the Company's accounting years beginning on or after January 1, 2018 and is currently assessing their impact.

2. Statement of compliance and basis of preparation (continued)

2.1 Adoption of new and revised standards (continued)

Adoption of the above standards except for IFRS 9 will not result in any material impact on the Company. Adoption of IFRS 9 will impact the Company due to introduction of a new impairment model for financial assets. The new impairment model requires the recognition of impairment provisions based on the forward looking Expected Credit Loss (ECL) rather than only incurred credit losses as is the case under IAS 39. The key inputs into the measurement of ECL are the term structure of the following variables:

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

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

- Stage 1: Performing assets: Financial assets that have not significantly deteriorated in credit quality since origination. The impairment allowance will be recorded based on 12 months ECL.
- Stage 2: Underperforming assets: Financial assets that have significantly deteriorated in credit quality since origination. The impairment allowance will be recorded based on lifetime ECL.
- Stage 3: Impaired assets: For Financial assets that are impaired, the Company will recognize the impairment allowance based on lifetime ECL.

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

Based on the assessments undertaken to date, the Company expects an increase in the allowance for impairment in investment in finance lease by approximately 63% on the date of initial application arising due to application of expected credit loss model as against incurred loss model. The management is currently in the process of assessing the full impact on the financial statements of the Company.

3. Summary of significant accounting policies

Except for the change in accounting policies resulting from new and amended IFRS and IFRIC guidance, as detailed in note 2 above and in note 3.9 below, the accounting policies adopted in the preparation of these financial statements are consistent with those used in the preparation of the annual financial statements for the year ended December 31, 2016.

The following is a summary of significant accounting policies applied by the Company:

3.1 Cash and cash equivalents

Cash and cash equivalents include cash in hand and with banks and other short-term highly liquid investments, if any, with original maturities of three months or less from the purchase date, which are available to the Company without any restrictions.

3.2 Investment in finance lease

Leases are classified as finance leases whenever 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.

Amounts due from lessees under finance lease are recognized as receivables at the amount of the Company's net investments in the leases. Finance lease income is allocated to the accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases.

Gross investment in finance lease represents the gross lease payments receivable to the Company, and the net investment in finance lease represents the present value of these lease payments including any guaranteed residual value, discounted at interest rate implicit in the lease. The difference between the gross investment in finance lease and unearned finance income represents net investment in finance lease which is stated net of allowance for impairment.

3. Summary of significant accounting policies (continued)

3.3 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and impairment, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognized when replaced.

All other repairs and maintenance are charged to statement of comprehensive income during the reporting period in which they are incurred. 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:

	Depreciation
• Computers and office equipment	33%
• Furniture and fixtures	33%
• Motor vehicles	25%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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

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

3.4 Intangible assets – computer software

Costs associated with maintaining software programmes are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognized as intangible assets when the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use;
- management intends to complete the software and use or sell it;
- there is an ability to use or sell the software;
- it can be demonstrated how the software will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software are available, and
- the expenditure attributable to the software during its development can be reliably measured.

Directly attributable costs that are capitalized as part of the software include employee costs and an appropriate portion of relevant overheads.

Capitalized development costs are recorded as intangible assets and amortized from the point at which the asset is ready for use.

The Company amortizes its intangible assets using straight-line method over their useful life of 5 years.

3.5 Accounts payable

These amounts represent liabilities for goods and services provided to the Company prior to the end of financial year which are unpaid. The amounts are unsecured. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period.

3.6 Post-employment benefits

Employees' termination benefits required by Saudi Arabian Labor and Workman Law are accrued by the Company and charged to statement of comprehensive income. The liability is calculated as the current value of the vested benefits to which the employee is entitled, should the employee leave at the balance sheet date. Termination payments are based on the employees' final salaries and allowances and their cumulative years of service, as defined by the conditions stated in the laws of the Kingdom of Saudi Arabia.

3. Summary of significant accounting policies (continued)

3.7 Borrowings

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in statement of comprehensive income the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in statement of comprehensive income as other income or finance costs.

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognized in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

3.8 Foreign currency translation

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (‘the functional currency’). The financial statements are presented in Saudi Riyals since it is the reporting and functional currency of the Company.

Transactions and balances

Transactions in foreign currencies are translated into Saudi Riyals at the exchange rates prevailing at transaction date. At the end of each reporting period, monetary assets and liabilities, denominated in foreign currencies, are retranslated into Saudi Riyals at the exchange rates prevailing at that date. Foreign exchange gains or losses on settlement and translation of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of comprehensive income in the period in which they arise.

Non-monetary items carried at fair value which are denominated in foreign currencies are retranslated using the exchange rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

3.9 Zakat

The Company is subject to zakat in accordance with the regulations of the General Authority of Zakat and Tax (the “GAZT”). Provision for zakat for the Company is charged to the statement of changes in shareholders’ equity as explained in note 2. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

The Company withhold taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law.

3.10 Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Company as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to statement of comprehensive income on a straight-line basis over the period of the lease.

3. Summary of significant accounting policies (continued)

3.11 Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

3.12 Provisions

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

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation to its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3.13 Revenue recognition - Finance lease and other operating income

(i) Income from finance lease

Income from finance lease which is considered an integral part of the effective yield of a financial asset, are recognized over the period of finance lease using the effective interest rate method and results in constant periodic rate of return on the net receivable outstanding, unless recoverability is in doubt. The recognition of income from finance lease is suspended when the related financial asset becomes impaired.

(ii) Processing fee and other operating income

Processing fee and other operating income represents administration fees which include leases initiation and customer risk assessment. Processing fee income is recognized over the period of the lease using the effective rate method, which results in a constant periodic rate of return on the net investment outstanding.

(iii) Other operating income

It is recorded when earned and realized.

3.14 Investments and other financial assets

(i) Classification

The Company classifies its financial assets in the following categories:
- financial assets at fair value through profit or loss,
- loans and receivables,
- held-to-maturity investments, and
- available-for-sale financial assets.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting period.

3. Summary of significant accounting policies (continued)

3.14 Investments and other financial assets (continued)

(ii) Reclassification

The Company may choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Company may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or available-for-sale categories if the Company has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortized cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

(iii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognized in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

(iv) Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in statement of comprehensive income.
Loans and receivables and held-to-maturity investments are subsequently carried at amortized cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value are recognized as follows:

- for ‘financial assets at fair value through profit or loss’ – in profit or loss within other income or other expenses.
- for available-for-sale financial assets that are monetary securities denominated in a foreign currency – translation differences related to changes in the amortized cost of the security are recognized in profit or loss and other changes in the carrying amount are recognized in other comprehensive income.
- for other monetary and non-monetary securities classified as available-for-sale - in other comprehensive income.

Dividends on financial assets at fair value through profit or loss and available-for-sale equity instruments are recognized in profit or loss as part of revenue from continuing operations when the Company’s right to receive payments is established.

Interest income from financial assets at fair value through profit or loss is included in the net gains/ (losses). Interest on available-for-sale securities, held-to-maturity investments and loans and receivables calculated using the effective interest method is recognized in the statement of profit or loss as part of revenue from continuing operations.

(v) Impairment

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset including investment in finance lease or group of financial assets is impaired. A financial asset including investment in finance lease or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or Company of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

3. Summary of significant accounting policies (continued)

3.14 Investments and other financial assets (continued)

Assets carried at amortized cost

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the statement of comprehensive income.

Assets classified as available-for-sale

If there is objective evidence of impairment for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in profit or loss.

Impairment losses on equity instruments that were recognized in profit or loss are not reversed through profit or loss in a subsequent period.

If the fair value of a debt instrument classified as available-for-sale increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

(vi) Income recognition

Finance income

Finance income is recognized using the effective interest method. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Finance income on impaired loans is recognized using the original effective interest rate.

Dividends

Dividends are recognized as revenue when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence.

3.15 Derivative financial instruments

The Company uses derivatives financial instruments to hedge the exposure of interest rate risks arising from financial activities.

The contracts of the interest rate swaps are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The resulting gain or loss is recognized in the statement income immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the statement of income depends on the nature of the hedge relationship.

Interest rate swaps, if material, are presented as a non-current asset in case of favorable contracts or a non-current liability in case of unfavorable contracts if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized or settled within 12 months and as a current asset or a current liability if the remaining maturity of the derivative instruments is less than 12 months. Other derivatives are presented as current assets or current liabilities.

3.16 Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into. Significant financial liabilities include bank loans, accounts payable and due to a related party and are stated at their nominal value. Bank loans are subsequently measured at amortized cost applying the effective interest method.

Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

3. Summary of significant accounting policies (continued)

3.16 Financial liabilities (continued)

Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Income or expense is recognized on an effective interest basis for debt instruments, other than those financial instruments classified as fair value through profit or loss.

3.17 Reclassifications

Following reclassifications have been made in the comparative 2016 financial information to conform to 2017 presentation:

Statement of financial position
An amount of Saudi Riyals 1,118,757 has been reclassified from ‘other receivables’ to ‘repossessed assets held for resale’ within ‘Advances, deposits, prepayments & other receivables’ in notes to the financial statements for the year ended December 31, 2016.

4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Company's accounting policies, management is required to make judgments. Estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgments, apart from those involving estimations, that the management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

a) Impairment of investment in finance lease

The Company reviews its investment in finance lease at each reporting date to assess whether an allowance for impairment should be recorded in statement of comprehensive income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

b) Derivative financial instruments

The fair value of financial instruments that are not traded in an active markets is determined using valuation techniques. The Company uses its judgement to select a variety of methods to make assumptions that are mainly based on market conditions existing at the end of each reporting period. The fair value of such derivative has been stated in note 8.

c) Fair value measurement

The Company measures financial instruments at fair value at each reporting date. The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

d) *Going* concern

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

(All amounts in Saudi Riyals unless otherwise stated)

5. Cash and cash equivalents

	2017	2016
Cash in hand	**5,000**	6,689,442
Cash at banks	**7,594,264**	-
	7,599,264	6,689,442

6. Investment in finance lease

	Note	December 31, 2017 Current	Non-current	Total
Gross investment in finance lease		**101,149,622**	**37,925,906**	**139,075,528**
Less: Unearned finance income and processing fees		**(14,899,927)**	**(4,830,534)**	**(19,730,461)**
		86,249,695	**33,095,372**	**119,345,067**
Less: Impairment of investment in finance lease	6.1	**(2,864,181)**	**-**	**(2,864,181)**
Net investment in finance lease		**83,385,514**	**33,095,372**	**116,480,886**

	Note	December 31, 2016 Current	Non-current	Total
Gross investment in finance lease		139,587,363	84,989,889	224,577,252
Less: Unearned finance income and processing fees		(22,234,641)	(10,384,907)	(32,619,548)
		117,352,722	74,604,982	191,957,704
Less: Impairment of investment in finance lease	6.1	(4,836,958)	-	(4,836,958)
Net investment in finance lease		112,515,764	74,604,982	187,120,746

The title of the assets sold under finance leases agreements are held in the name of the Company. All investment in finance leases are secured through personal guarantees. Investment in finance lease of Saudi Riyals 18.2 million (2016: Saudi Riyals 58.44 million) were collateralised for loans obtained from the banks (see note 13).

The interest rate implicit in the leases is fixed at the contract date of the entire lease term. The average effective interest rate contracted is approximately 10% to 19% per annum. The finance leases contracts term range between 10 months to 48 months (2016:10 months to 48 months).

	Year	December 31, 2017 Gross investment in finance lease	Unearned finance income and processing fees	Impairment of investment in finance lease	Net investment in finance lease
Total current portion	**2018**	**101,149,622**	**(14,899,927)**	**(2,864,181)**	**83,385,514**
Non-current portion	**2019**	**26,479,789**	**(3,544,661)**	**-**	**22,935,128**
	2020	**9,725,758**	**(1,151,811)**	**-**	**8,573,947**
	2021	**1,720,359**	**(134,062)**	**-**	**1,586,297**
Total non-current portion		**37,925,906**	**(4,830,534)**	**-**	**33,095,372**
Total		**139,075,528**	**(19,730,461)**	**(2,864,181)**	**116,480,886**

	Year	December 31, 2016 Gross investment in finance lease	Unearned finance income and processing fees	Impairment of investment in finance lease	Net investment in finance lease
Total current portion	2017	139,587,363	(22,234,641)	(4,836,958)	112,515,764
Non-current portion	2018	67,642,419	(8,626,891)	-	59,015,528
	2019	15,699,607	(1,564,304)	-	14,135,303
	2020	1,647,863	(193,712)	-	1,454,151
Total non-current portion		84,989,889	(10,384,907)	-	74,604,982
Total		224,577,252	(32,619,548)	(4,836,958)	187,120,746

(All amounts in Saudi Riyals unless otherwise stated)

6. Investment in finance lease (continued)

6.1 The movement in impairment of investment finance lease is as follows:

	2017	2016
January 1	**4,836,958**	2,520,000
(Reversed) / charged during the year	**(1,972,777)**	2,316,958
December 31	**2,864,181**	4,836,958

The ageing of investment in finance lease which are past due but not considered impaired by the management is as follows:

	2017	2016
Less than 30 days	**4,879,422**	7,090,619
31-90 days	**4,353,630**	9,304,251
91-180 days	**2,743,848**	4,222,433
181-360 days	**4,433,505**	3,811,079
More than 360 days	**4,120,616**	191,013
	20,531,021	24,619,395
Less: Impairment of investment in finance lease	**(2,864,181)**	(4,836,958)
	17,666,840	19,782,437

The not yet due portion of the customers included in the above balances included in investment in finance lease is Saudi Riyals 23.9 million (2016: Saudi Riyals 56.1 million).

6.2 Based on the SAMA regulations, the aggregate amount of income suspended as at December 31, 2017 amounted to Saudi Riyals 3.16 million (2016: Nil).

7. Advances, deposits, prepayments and other receivables

	Note	2017	2016
Prepayments		**1,843,516**	2,674,134
Deposits	7.1	**5,486,890**	1,747,194
Repossessed assets held for resale	7.2	**1,317,674**	1,118,757
Employees' loans		**120,507**	182,311
Other receivables		**201,985**	7,622
		8,970,572	5,730,018

7.1 Deposits include current portion of restricted deposits with a bank amounting to Saudi Riyals 5.46 million (2016: Saudi Riyal 1.67 million). Also see note 13.

7.2 During the year, the Company has repossessed assets amounting to Saudi Riyals 1.3 million (2016: Saudi Riyals 1.1 million). These assets are available for resale/refinancing at the year end.

8. Derivative financial instruments

The Company is exposed to fluctuations in variable interest rates on its medium to long-term debt. See note 13. The Company maintains an interest rate risk management strategy that uses derivative instruments such as interest rate swaps to economically convert a portion of its variable rate debt to fixed rate debt.

The Company has the following interest rate swap contracts outstanding:

	December 31, 2017			
	Less than one year	Between 1 and 2 years	Between 2 and 5 years	Total
Current liabilities	**(62,597)**	**-**		**(62,597)**
Non - current liabilities	**-**	**(30,613)**	**-**	**(30,613)**
	(62,597)	**(30,613)**	**-**	**(93,210)**

GULF FINANCE CORPORATION
(A Saudi Closed Joint Stock Company)
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(All amounts in Saudi Riyals unless otherwise stated)

8. Derivative financial instruments (continued)

	December 31, 2016			
	Less than one year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Total**
Current assets	1,618	-	-	1,618
Non-current assets	-	7,464	-	7,464
Non - current liabilities	-	(275,301)	(186,608)	(461,909)
	1,618	(267,837)	(186,608)	(452,827)

The reducing balance interest rate swap contracts have cap options, which protect the Company against adverse interest rate fluctuations within specified range. According to the above interest rate swap contracts, the Company pays fixed rate interest per annum and receives floating rate of one month bank offered rate plus a margin per annum.

The fair value of interest rate swaps resulted in gains amounting to Saudi Riyals 359,618 as of December 31, 2017, which has been accounted for in the statement of comprehensive income within finance cost and a corresponding credit within current liabilities, non-current assets and non-current liabilities.

9. Property and equipment

	January 1, 2017	**Additions**	**Disposals**	**December 31, 2017**
Cost				
Computers and office equipment	712,757	-	-	**712,757**
Furniture and fixtures	1,764,021	6,710	-	**1,770,731**
Motor vehicles	45,750	-	-	**45,750**
	2,522,528	6,710	-	**2,529,238**
Accumulated depreciation				
Computers and office equipment	(400,313)	(176,332)	-	**(576,645)**
Furniture and fixtures	(409,578)	(411,814)	-	**(821,392)**
Motor vehicles	(39,079)	(6,671)	-	**(45,750)**
	(848,970)	(594,817)	-	**(1,443,787)**
Net book amount	1,673,558			**1,085,451**

	January 1, 2016	**Additions**	**Transfer**	**Disposals**	**December 31, 2016**
Cost					
Computers and office equipment	525,978	224,241	-	(37,462)	712,757
Furniture and fixtures	166,295	425,805	1,338,216	(166,295)	1,764,021
Motor vehicles	100,750	-	-	(55,000)	45,750
Capital work in progress	1,170,127	168,089	(1,338,216)	-	-
	1,963,150	818,135	-	(258,757)	2,522,528
Accumulated depreciation					
Computers and office equipment	(282,264)	(156,098)	-	38,049	(400,313)
Furniture and fixtures	(152,192)	(414,421)	-	157,035	(409,578)
Motor vehicles	(68,891)	(21,750)	-	51,562	(39,079)
	(503,347)	(592,269)	-	246,646	(848,970)
Net book amount	1,459,803				1,673,558

Capital work in progress included lease hold improvements in respect of the new office premises that were completed and capitalised during 2016.

10. Intangible assets

	January 1, 2017	Additions	December 31, 2017
Cost			
Computer software	4,041,010	52,236	**4,093,246**
Accumulated amortization			
Computer software	(1,064,698)	(828,267)	**(1,892,965)**
Net book amount	2,976,312		**2,200,281**

	January 1, 2016	Additions	December 31, 2016
Cost			
Computer software	3,413,409	627,601	4,041,010
Accumulated amortization			
Computer software	(228,230)	(836,468)	(1,064,698)
Net book amount	3,185,179		2,976,312

11. Available-for-sale investment

During the year, the Company has contributed an amount of Saudi Riyals 892,850 in the share capital of Saudi Company for Lease Contracts Registration, a Saudi joint stock company registered in the Kingdom of Saudi Arabia. As at December 31, 2017 the Company holds 89,285 shares in Saudi Company for Lease Contracts Registration that represents 2% of total share capital of that company. The Saudi Company for Lease Contracts Registration is currently in development stage and has not yet started its operations.

12. Statutory reserve

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia, the Company is required to allocate 10% of its net income each year to a statutory reserve, after any accumulated deficit is absorbed, until such reserve equals 30% of its share capital. This reserve is not currently available for distribution to the shareholders.

13. Long-term borrowings

	2017	2016
January 1	**75,903,618**	63,235,220
Acquired during the year	**-**	68,000,000
Repayment during the year	**(49,711,515)**	(55,331,602)
December 31	**26,192,103**	75,903,618
Less: Deferred charges	**(92,370)**	(605,363)
	26,099,733	75,298,255
Less: Current portion	**(25,887,793)**	(49,400,437)
Non-current portion	**211,940**	25,897,818

The Company has obtained loan facilities from various commercial banks and other financial institutions. These loans are denominated in Saudi Riyals. The long-term borrowings bear markup ranging from 1 month bank rate plus a margin per annum. The aggregate maturities of these loans, based on their respective repayment schedules, are spread through 2019. The facilities are secured by promissory notes, restricted deposits (10% of drawn amount), an assignment of notes receivable of Saudi Riyals 18.2 million (2016: Saudi Riyals 58.44 million), corporate guarantee issued by the major shareholders for Saudi Riyals 125 million (2016: Saudi Riyals 125 million) and a letter of undertaking and acknowledgement signed jointly and severally by Chairman and CEO in respect of the granted facilities. The terms of the facility include certain covenants such as dividends' restrictions and changes in the Company's ownership and other covenants. Restricted deposits with bank carries markup as per the terms of agreement with the bank.

13.1 Movement in deferred charges is as follows:

	2017	2016
January 1	**605,363**	612,124
Paid during the year	**-**	980,000
Amortized during the year	**(512,993)**	(986,761)
December 31	**92,370**	605,363

(All amounts in Saudi Riyals unless otherwise stated)

13. Long-term borrowings (continued)

13.2 Maturity profile of long-term borrowings:

Year ending December 31:

	2017	2016
2017	-	49,400,437
2018	25,887,793	26,252,081
2019	304,310	251,100
	26,192,103	75,903,618

13.3 The Company has undrawn financing facility at floating rate amounting to Saudi Riyals 62.3 million (2016: Saudi Riyals 27.3 million).

14. Related party matters

During 2017 and 2016, the Company has transactions with the following related parties under the normal course of business:

Name	Relationship
Shuaa Capital PJSC	Shareholder
Gulf Finance Corporation PJSC	Shareholder
Key management personnel	Connected persons

14.1 The significant transactions and related amounts are as follows:

	2017	2016
Funding from a shareholder	3,061,224	-
Allocation of software and related cost	700,136	772,665
Allocation of other operating expenses	247,721	248,331
Facility fees and financial charges	1,444,978	2,909,079

Compensation of key management personnel

The remuneration of directors and other members of key management during the year are as follows:

	Note	2017	2016
Salaries paid to key management personnel		2,587,391	3,120,856
Post-employment benefits		114,192	134,898
Directors remuneration		99,194	405,000
Compensation for Chairman of the Board	14.1.1	-	220,000
		2,800,777	3,880,754

14.1.1 This represents an amount awarded to the Chairman of the Board of Directors for his efforts during 2016.

14.2 Due to related parties as of December 31 are comprised of the following:

	2017	2016
Gulf Finance Corporation PJSC	3,170,230	5,709
Shuaa Capital PJSC	-	20,408,163
	3,170,230	20,413,872

14.2.1 Due to Gulf Finance Corporation PJSC is against a subordinated shareholder loan agreement which will be settled within the next twelve months.

14.3 Gulf Finance Corporation PJSC has provided a guarantee on behalf of the Company to a syndicate of banks headed by Abu Dhabi Commercial Bank (ADCB) for a letter of credit facility extended to the Company amounting of AED 13,502,638. The Company pays a charge on the letter of credit facility to ADCB on a monthly basis.

(All amounts in Saudi Riyals unless otherwise stated)

15. Zakat matters

15.1 Components of zakat base

The significant components of the zakat base, under zakat and income tax regulations, is principally comprised of shareholders' equity, provisions at the beginning of year, and adjusted net income, less deductions for the net book value of property and equipment, and certain other items.

The principal elements of the zakat base are as follows:

	2017	2016
Deductible assets	**121,830,668**	197,861,664
Non-current liabilities and borrowing	**26,632,769**	10,976,938
Opening shareholders' equity	**106,485,777**	106,289,935
Adjusted net income before zakat	**502,183**	3,688,988

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

15.2 Provision for zakat

	2017	2016
January 1	**92,504**	140,000
Provision for the year	**274,404**	91,347
Paid during the year	**(66,908)**	(138,843)
December 31	**300,000**	92,504

15.3 Status of final assessments

The Company has filed its zakat declarations with the General Authority of Zakat and Tax (GAZT) upto 2016. The zakat declarations for 2013 to 2016 are still under review with the GAZT.

16. Other liabilities and accruals

	2017	2016
Advance payments from customers	**1,393,241**	657,329
Accrued expenses	**355,840**	1,204,898
Accrued finance charges	**159,328**	1,152,973
Other liabilities	**33,396**	1,686,904
	1,941,805	4,702,104

17. Post-employment benefits

	2017	2016
January 1	**730,466**	658,294
Charge for the year	**252,841**	177,146
Paid during the year	**(197,430)**	(104,974)
Reversed during the year	**(31,562)**	-
December 31	**754,315**	730,466

18. Operating leases arrangements

	2017	2016
Payments under operating leases recognized as an expense during the year	**460,590**	722,689

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

19. Finance charges, net

	Note	2017	2016
Finance charges on bank borrowings		**5,184,360**	8,875,555
Bank charges		**72,085**	79,690
Net (gain) / loss on interest rate swap derivatives	8	**(359,618)**	452,827
		4,896,827	9,408,072

20. Other operating costs

	2017	2016
Insurance expenses	**3,225,633**	3,762,253
Tracker expenses	**57,944**	492,650
Other	**54,032**	63,096
	3,337,609	4,317,999

21. General and administrative expenses

	2017	2016
Salaries and allowances	**8,041,730**	9,666,612
Depreciation and amortization	**1,423,086**	1,428,737
Professional and consultancy fees	**807,693**	1,714,476
Computer expenses	**584,775**	1,068,579
Rent	**460,590**	722,689
Legal fees	**378,527**	377,555
Write-off of investment in finance lease	**359,448**	230,109
Travelling	**291,197**	659,931
Communication	**147,049**	171,550
Repairs and maintenance	**41,856**	36,056
Printing and stationary	**11,607**	50,919
Advertisement	**-**	76,860
Other	**611,227**	1,044,118
	13,158,785	17,248,191

22. Financial risk management

The Company's activities are exposed to a variety of financial risks which mainly include market risk (including foreign exchange risk, interest rate risk and price risk) credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial statements. The Company uses derivatives financial instruments to reduce certain risk exposures. The Board of Directors of the Company has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board is also responsible for developing and monitoring the Company's risk management policies.

22.1 Market risk

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

Market risk comprises of three types of risk: currency risk, interest rate risk and price risk.

22.1.1 Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. All the Company's transactions and finance lease arrangements are made in Saudi Riyals except for payable to shareholders which are in UAE Dirhams. Accordingly, the Company is not exposed to currency risk as both Saudi Riyals and UAE Dirhams are pegged against US Dollars and are exposed to similar fluctuations.

(All amounts in Saudi Riyals unless otherwise stated)

22. Financial risk management (continued)

22.1.2 Cash flow and fair value interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates is limited as all the Company's financial assets have fixed interest rates.

For financial liabilities, the Company maintains interest rate risk management strategy that uses derivative instruments such as interest rate swaps to economically convert a portion of its variable rate debt to a fixed rate debt. See notes 8 and 13.

22.1.3 Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk) whether those changes are caused by factors specific to the individual financial instruments or it's issuer, or factors affecting all similar financial instruments traded in the market. As at December 31, 2017 and 2016, the Company has no investments that are exposed to price risk.

22.2 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The risk is generally limited to principal amounts and accrued profit thereon, if any. The Company has established procedures to manage credit exposure including credit approvals, credit limits, collateral and guarantee requirements. The Company also manages risk through a credit department which evaluates customers' credit worthiness and obtains adequate securities where applicable.

All investing transactions are settled / paid for upon delivery. The Company's policy is to enter into financial instrument contract by following internal guidelines such as approving counterparties and approving credits.

Concentration of credit risk arises when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentration of credit risk indicates the relative sensitivity of the Company's performance to developments affecting a particular industry or geographic location. Ten largest customers account for 25% (2016: 14%) of outstanding balance of investment in finance lease as at December 31, 2017 and 2016.

Out of the total assets of Saudi Riyals 139.3 million (2016: Saudi Riyals 211.6 million) the assets which were subject to credit risk amounted to Saudi Riyals 131.8 million (2016: Saudi Riyals 202.9 million).

The maximum exposure to credit risk at the reporting date is:

	2017	**2016**
Net investment in finance lease	**116,480,886**	187,120,746
Other receivables	**201,985**	7,622
Cash and cash equivalents	**7,599,264**	6,689,442
Restricted deposits with bank	**7,530,940**	9,079,537
	131,813,075	202,897,347

The Company monitors the credit quality of receivables through diversification of activities to avoid undue concentration of risks with individuals or groups. For such purpose, the Company has established exposure limits for single lessees and industrial sectors. The Company has an effective rental monitoring system which allows it to evaluate customers' credit worthiness and identify potential problem accounts. An allowance for potential lease losses is maintained at a level which, in the judgment of management, is adequate to provide for potential losses on lease installment that can be reasonably anticipated. The credit quality of receivables can be assessed with reference to their historical performance with no or some defaults in recent history. However, the rating for quality of Company's investments cannot be determined due to the fact that the customer base of the Company consist of small business for which such data is not readily available.

Concentration of the Company's customer into industrial sectors on the basis of percentage of the outstanding balance of investment in finance lease as at December 31 is as follows:

	2017	**2016**
Construction	**27%**	32%
Manufacturing	**31%**	29%
Transportation and warehousing	**12%**	15%
Others	**30%**	24%
	100%	100%

The majority of finance lease receivable is secured mainly through personal guarantees and promissory notes. The title of the assets leased under finance agreements is held in the name of the Company as collateral.

(All amounts in Saudi Riyals unless otherwise stated)

22. Financial risk management (continued)

22.2 Credit risk (continued)

See note 6 for ageing of net investment in finance lease which are past due.

The credit quality of the Company's bank balances are assessed with reference to external credit ratings which, in all cases, are above investment grade rating. The bank balances along with credit ratings are tabulated below:

	2017	**2016**
A+	**176**	2,219
A	**-**	1,848,538
A-	**1,322,027**	4,838,685
BBB+	**6,272,061**	-
	7,594,264	6,689,442

22.3 Liquidity risk

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

The Company's financial liabilities primarily consist of accounts payable, due to related parties, and bank borrowings. Even though significant portion of these are expected to be settled within 12 months from the reporting date. Accounts payable, accrued and other liabilities aggregating Saudi Riyals 2.4 million (2016: Saudi Riyals 8.1 million) have a short term maturity. The Company expects to have adequate liquid funds to settle its current liabilities through close monitoring of due to both current assets and current liabilities.

Following is the contractual maturities of financial liabilities as at December 31, 2017 and 2016:

Contractual maturities of financial liabilities At December 31, 2017	**Less than 6 months**	**6-12 months**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Total**
Non-Derivative					
Accounts payable	**441,786**	**-**	**-**	**-**	**441,786**
Other liabilities and accruals	**1,941,805**	**-**	**-**	**-**	**1,941,805**
Bank borrowings	**16,863,197**	**9,024,596**	**304,310**	**-**	**26,192,103**
Due to related parties	**3,170,230**	**-**	**-**	**-**	**3,170,230**
	22,417,018	**9,024,596**	**304,310**	**-**	**31,745,924**
Derivative					
Interest rate swaps	**362**	**62,235**	**30,613**	**-**	**93,210**
	22,417,380	**9,086,831**	**334,923**	**-**	**31,839,134**

Contractual maturities of financial liabilities At December 31, 2016	**Less than 6 months**	**6-12 months**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Total**
Non-Derivative					
Accounts payable	3,416,614	-	-	-	3,416,614
Other liabilities and accruals	4,702,104	-	-	-	4,702,104
Bank borrowings	27,229,995	22,170,442	26,198,871	304,310	75,903,618
Due to related parties	-	20,413,872	-	-	20,413,872
	35,348,713	42,584,314	26,198,871	304,310	104,436,208
Derivative					
Interest rate swaps	-	-	275,301	186,608	461,909
	35,348,713	42,584,314	26,474,172	490,918	104,898,117

Also, the Company has undrawn financing facilities amounting to Saudi Riyals 62.3 million (2016: Saudi Riyals 27.3 million). See note 13.

(All amounts in Saudi Riyals unless otherwise stated)

22. Financial risk management (continued)

22.4 Capital risk management

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

The Company's capital structure consists of net debt (borrowings as detailed in note 13 and 14 offset by cash and bank balances) and equity of the Company. The Company's policy is to maintain a strong capital base well above the minimum requirements to maintain investor, creditor and market confidence and to sustain future development of the business. Further, 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.

The capital structure of the Company in terms of the gearing ratio is as shown below:

	2017	**2016**
Total borrowings	**21,763,069**	89,628,048
Total shareholders' equity	**106,492,275**	106,485,777
Total capital structure	**128,255,344**	196,113,825
Gearing ratio	**16.97%**	45.70%

Borrowings consist of short and long term bank borrowings and due to related parties offset by cash and cash equivalents.

	2017	**2016**
Aggregate financing to capital ratio (Net investment in finance lease divided by total equity)	**1.09 times**	1.76 times

Equity includes all capital and reserves of the Company that are managed as capital.

22.5 Fair value of financial instruments

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 by the Company.

The Company's financial assets consist of cash and cash equivalents, other receivables, investments, bank deposits, and financial liabilities consisting of due to shareholders, accrued expenses and other liabilities.

The fair values of financial assets and liabilities are not materially different from their carrying values at the statement of financial position date.

Determination of fair value and fair value hierarchy.

The Company, if applicable, uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted prices in active markets for the identical assets or liabilities (i.e. without modification or repacking).

Level 2: quoted prices in active markets for similar financial assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data; and

(All amounts in Saudi Riyals unless otherwise stated)

22. Financial risk management (continued)

22.5 Fair value of financial instruments (continued)

Level 3: valuation techniques for which any significant input is not based on observable market data.

As at December 31, 2017 and 2016, all the financial instruments which are fair valued are level 2 instruments that includes derivative financial instruments, which have been calculated by the Company using mid-market quotation valuation. Management believes that the fair value of available-for-sale investment is equal to its cost. Therefore, no impact of the change in the fair value of the investment has been recognized in these financial statements.

There were no transfers between levels during the years ended December 31, 2017 and 2016.

23. Change in accounting policy

The change in the accounting policy for zakat (as explained in note 2) has the following impact on the statement of comprehensive income and the statement of changes in shareholders' equity:

For the year ended December 31, 2016:

	As previously reported	Effect of restatement	As restated
Statement of comprehensive income			
Zakat	**91,347**	**(91,347)**	**-**
Profit for the year	**195,842**	**91,347**	**287,189**
Total comprehensive income for the year	**195,842**	**91,347**	**287,189**
Statement of changes in shareholders' equity			
Total comprehensive income for the year	**195,842**	**91,347**	**287,189**
Zakat charge for the year	**-**	**91,347**	**91,347**

The above change in accounting policy did not have any effect on the statement of financial position as of December 31, 2016 and the statement of cash flows for the year ended December 31, 2016.

24. Approval of financial statements

These financial statements have been authorised for issue by the management on February 26, 2018.