

DEUTSCHE GULF FINANCE
(A Saudi Closed Joint Stock Company)
FINANCIAL STATEMENTS
For the year ended 31 December 2017
together with the
Independent Auditors' Report



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Independent auditors' report

To the Shareholders of Deutsche Gulf Finance (A Saudi Closed Joint Stock Company)

Opinion

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

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

Basis for Opinion

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS as modified by the SAMA for the accounting of zakat and income tax, 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.

Auditors' Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

For KPMG Al Fozan & Partners
Certified Public Accountants

Khalil Ibrahim Al Sedais
License No: 371



11 Jamad Al-Thani 1439H
Corresponding to: 27 February 2018

DEUTSCHE GULF FINANCE
(A Saudi Closed Joint Stock Company)
STATEMENT OF FINANCIAL POSITION
As at 31 December 2017
(Saudi Riyals)

	<u>Notes</u>	<u>2017</u>	<u>2016</u> (Restated)
ASSETS			
Cash and cash equivalents	9	99,554,806	18,870,173
Advances, prepayments and other receivables	10	15,041,002	20,605,933
Financial assets held at fair value through other comprehensive income	11	1,439,264,043	1,554,740,212
Due from related parties	17	3,982,965	3,953,220
Intangible assets	13	175,594	146,800
Property and equipment	14	20,053,655	3,415,361
TOTAL ASSETS		<u>1,578,072,065</u>	<u>1,601,731,699</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Short-term borrowings	15	927,241,822	997,254,308
Due to related parties	17	379,638	230,933
Deferred income	12	27,038,870	27,479,076
Provision for zakat and income tax	8	9,773,757	4,592,393
Accounts and other payables		240,847	267,613
Accrued expenses and other liabilities	16	28,694,865	22,101,355
Employees' end of service benefits		2,255,345	2,485,249
TOTAL LIABILITIES		<u>995,625,144</u>	<u>1,054,410,927</u>
SHAREHOLDERS' EQUITY			
Share capital	18	575,000,000	575,000,000
Fair value reserve	11	16,160,535	14,762,577
Accumulated losses		(8,713,614)	(42,441,805)
TOTAL SHAREHOLDERS' EQUITY		<u>582,446,921</u>	<u>547,320,772</u>
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		<u>1,578,072,065</u>	<u>1,601,731,699</u>

The attached notes 1 to 28 form an integral part of these financial statements.

DEUTSCHE GULF FINANCE
(A Saudi Closed Joint Stock Company)
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2017
(Saudi Riyals)

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
OPERATING INCOME			
Income from financial assets held at fair value through other comprehensive income		110,215,012	103,984,522
Financial charges		<u>(43,155,337)</u>	<u>(44,674,614)</u>
		67,059,675	59,309,908
Realised gain on sale, settlement or early termination of financial assets and amortisation of deferred income		10,486,254	10,472,858
Application fee, processing fee and other income		2,965,503	721,777
Servicing fee		1,643,201	1,213,920
TOTAL OPERATING INCOME, NET		<u>82,154,633</u>	<u>71,718,463</u>
OPERATING EXPENSES			
Employees' benefits and compensation	6	23,987,974	27,184,230
Other general and administration expenses	7	14,814,285	13,009,403
Impairment loss on financial assets held at fair value through other comprehensive income	11	1,397,958	658,364
Amortisation	13	128,706	102,442
Depreciation	14	1,040,452	1,097,903
TOTAL OPERATING EXPENSES		<u>41,369,375</u>	<u>42,052,342</u>
PROFIT FOR THE YEAR		<u>40,785,258</u>	<u>29,666,121</u>
OTHER COMPREHENSIVE INCOME			
<i>Item that may be reclassified subsequently to profit or loss</i>			
Impairment loss on financial assets held at fair value through other comprehensive income		1,397,958	658,364
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>42,183,216</u>	<u>30,324,485</u>
Basic and diluted earnings per share	20	<u>0.71</u>	<u>0.52</u>

The attached notes 1 to 28 form an integral part of these financial statements.

DEUTSCHE GULF FINANCE
(A Saudi Closed Joint Stock Company)
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended 31 December 2017
(Saudi Riyals)

	Share Capital		Fair value reserve		Accumulated losses		Total					
	Saudi shareholders	Non-Saudi shareholders	Saudi shareholders	Non-Saudi shareholders	Saudi shareholders	Non-Saudi shareholders	Saudi shareholders	Non-Saudi shareholders				
Balance as at 1 January 2017	407,555,460	167,444,540	575,000,000	10,463,716	4,298,861	14,762,577	(13,447,406)	(28,994,399)	(42,441,805)	404,571,769	142,749,003	547,320,772
Profit for the year	--	--	--	--	--	--	28,908,591	11,876,667	40,785,258	28,908,591	11,876,667	40,785,258
Provision for zakat and income tax, net (refer note 8(b))	--	--	--	--	--	--	(6,904,596)	(152,471)	(7,057,067)	(6,904,596)	(152,471)	(7,057,067)
Other comprehensive income												
Impairment loss on financial assets held at fair value through other comprehensive income	--	--	--	990,872	407,086	1,397,958	--	--	--	990,872	407,086	1,397,958
Balance as at 31 December 2017	407,555,460	167,444,540	575,000,000	11,454,588	4,705,947	16,160,535	8,556,589	(17,270,203)	(8,713,614)	427,566,636	154,880,285	582,446,921
Balance as at 1 January 2016 (As previously reported)	407,555,460	167,444,540	575,000,000	9,997,067	4,107,146	14,104,213	(33,747,453)	(31,567,208)	(65,314,661)	383,805,073	139,984,479	523,789,552
Adjustment (refer note 27)	--	--	--	--	--	--	--	(4,295,671)	(4,295,671)	--	(4,295,671)	(4,295,671)
Balance as at 1 January 2016 (As restated)	407,555,460	167,444,540	575,000,000	9,997,067	4,107,146	14,104,213	(33,747,453)	(35,862,879)	(69,610,332)	383,805,073	135,688,808	519,493,881
Profit for the year	--	--	--	--	--	--	21,027,346	8,638,775	29,666,121	21,027,346	8,638,775	29,666,121
Provision for zakat and income tax, net (refer note 8(b))	--	--	--	--	--	--	(727,299)	(1,770,295)	(2,497,594)	(727,299)	(1,770,295)	(2,497,594)
Other comprehensive income												
Impairment loss on financial assets held at fair value through other comprehensive income	--	--	--	466,649	191,715	658,364	--	--	--	466,649	191,715	658,364
Balance as at 31 December 2016 (Restated)	407,555,460	167,444,540	575,000,000	10,463,716	4,298,861	14,762,577	(13,447,406)	(28,994,399)	(42,441,805)	404,571,769	142,749,003	547,320,772

The attached notes 1 to 28 form an integral part of these financial statements.

DEUTSCHE GULF FINANCE
(A Saudi Closed Joint Stock Company)
STATEMENT OF CASH FLOWS
For the year ended 31 December 2017
(Saudi Riyals)

	<i>Notes</i>	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		40,785,258	29,666,121
Adjustments for:			
Amortisation	13	128,706	102,442
Depreciation	14	1,040,452	1,097,903
Employees' end of service benefits charge		650,648	716,324
Loss on disposal of property and equipment		--	253,132
Impairment loss on financial assets held at fair value through other comprehensive income	11	1,397,958	658,364
		<u>44,003,022</u>	<u>32,494,286</u>
Changes in operating assets and liabilities:			
Financial assets held at fair value through other comprehensive income		115,476,169	(116,751,185)
Advances, prepayments and other receivables		5,564,931	(11,092,197)
Trade and other payables		(26,767)	(904,075)
Deferred income		(440,206)	8,853,202
Accrued expenses and other liabilities		6,593,510	(1,907,909)
Due from related parties		(29,745)	--
Due to related parties		148,705	230,933
Net cash from / (used in) operations		<u>171,289,619</u>	<u>(89,076,945)</u>
Employees' end of service benefits paid		(880,552)	(521,907)
Zakat and income tax paid	8	(1,875,703)	(1,283,112)
Net cash from / (used in) operating activities		<u>168,533,364</u>	<u>(90,881,964)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property and equipment	14	(17,678,745)	(362,094)
Acquisition of intangible assets	13	(157,500)	(55,025)
Proceeds from the sale of property and equipment		--	2,024
Net cash used in investing activities		<u>(17,836,245)</u>	<u>(415,095)</u>
CASH FLOWS FROM FINANCING ACTIVITY			
Proceeds from short-term borrowings		7,487,222,892	8,810,252,930
Repayment of short-term borrowings		(7,557,235,378)	(8,724,295,141)
Net cash from / (used in) financing activity		<u>(70,012,486)</u>	<u>85,957,789</u>
Net increase / (decrease) in cash and cash equivalents		80,684,633	(5,339,270)
Cash and cash equivalents at beginning of the year		18,870,173	24,209,443
Cash and cash equivalents at end of the year	9	<u>99,554,806</u>	<u>18,870,173</u>

The attached notes 1 to 28 form an integral part of these financial statements.

DEUTSCHE GULF FINANCE
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017

1. CORPORATE INFORMATION

Deutsche Gulf Finance (the "Company") is a Saudi closed joint stock company established pursuant to a ministerial resolution numbered 3/Q dated 6 Muharram 1431H (corresponding to 23 December 2009) and registered in the Kingdom of Saudi Arabia under commercial registration number 1010280521 dated 9 Safar 1431H (corresponding to 25 January 2010). The Company has a branch in Jeddah registered under commercial registration number 4030245681 dated 19 Jumada Thani 1434H (corresponding to 29 April 2013) and a branch in Al Khobar registered under commercial registration number 2051052773 dated 19 Jumada Thani 1434H (corresponding to 29 April 2013). The registered office of the Company is located at King Fahad Road, P.O.Box 75370, Riyadh 11578, Kingdom of Saudi Arabia.

The Company is engaged in real estate financing (in the form of Ijara, Ijara of real estate under construction) and similar financing facilities that includes acquisition, purchase of lands and buildings for the purposes of financing facilities (except in Makkah and Madina), Ijara financing services that relates to real estates, movables and financing facilities guaranteed by mortgage in accordance with license number 2030114773 dated 2 Dhul- Qadah 1430H (corresponding to 21 October 2009) as obtained from the Saudi Arabian General Investment Authority.

The Saudi Arabian Monetary Authority's ("SAMA") issued the Implementing Regulations of The Law on Supervision of Finance Companies which was published on 24 February 2013 following the Financial Lease Law and the Law on Supervision of Finance Companies (the "laws") published on 27 August 2012. The Company was issued a license (number 17/A SH/201405) from SAMA on 20 May 2014 (corresponding to 21 Rajab 1435H).

2. BASIS OF PREPARATION

Statement of compliance

These financial statements have been prepared:

- (a) in accordance with International Financial Reporting Standards ("IFRS") as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax', which requires, adoption of all IFRSs as issued by the International Accounting Standards Board ("IASB"). As per the SAMA Circular no. 381000074519 dated 11 April 2017 instead of International Accounting Standard (IAS) 12 - "Income Taxes" and IFRIC 21 - "Levies" and subsequent amendments through certain clarifications relating to the accounting for zakat and income tax ("SAMA Circular"), the Zakat and Income tax are continued to be accrued on a quarterly basis through shareholders equity under retained earnings.
- (b) in compliance with the Regulations for Companies in the Kingdom of Saudi Arabia and the By-Laws of the Company.

The above change in framework resulted in a change in accounting policy for zakat and income tax and the effects of this change are disclosed in note 27 to the financial statements.

Basis of measurement

The financial statements are prepared under the historical cost convention, except for financial assets held at fair value through other comprehensive income.

Functional and presentational currency

The financial statements are presented in Saudi Riyals, which is the functional and presentation currency of the Company.

Comparative information

The comparative information is re-classified wherever necessary to conform with the current year's classification in order to provide a better presentation. The details of such re-classifications have been provided in note 26 to the financial statements.

DEUTSCHE GULF FINANCE
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies adopted in the preparation of these financial statements. The policies adopted in the preparation of these financial statements are consistent with those followed in the preparation of previous year financial statements, except for:

(a) Change in accounting policy in relation to accounting for zakat and income tax. As described in note 2, the Company amended its accounting policy in relation to zakat and income tax effective 1 January 2017. Previously, deferred tax asset / liability was recorded in relation to temporary deductible / taxable differences, which is not required under the SAMA Circular no. 381000074519 issued in April 2017 for the accounting of zakat and income tax. The effects of the new zakat and income tax accounting policy is accounted in the financial statements retrospectively (See note 27).

(b) Adoption of the following amendments to standards:

- Amendments to IASs' – "Disclosure Initiative" applicable from 1 January 2017.
- Amendments to IAS 7 – "Statement of Cash Flows" which is applicable for annual periods beginning on or after 1 January 2017. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash change.

Revenue recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Company, and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

- Gross income on financial assets held at fair value through other comprehensive income are recognised on an effective yield basis.
- Fees that are considered as integral component to the effective yield are deferred and recognised over the contract period of financial assets held at fair value through other comprehensive income. Other fees are recognized as services are rendered.

Expenses

Expenses are recognized in the statement of profit or loss and other comprehensive income when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Expenses are recognized on the basis of a direct association between the costs incurred and the earning of specific items of income; on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over the accounting period. Expenses are presented using the nature of expense method.

Foreign currencies

Transactions in foreign currencies are recorded in Saudi Riyals at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the financial reporting date. All differences are taken to the statement of profit or loss and comprehensive income.

Zakat and income tax

Zakat and income taxes are accrued on quarterly basis and are included under liabilities as provision for zakat and income tax. These are charged directly to retained earnings as required by SAMA Circular no. 381000074519 issued in April 2017.

DEUTSCHE GULF FINANCE
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible Assets

Software acquired by the Company is measured at cost less accumulated amortisation and any accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Software is amortised on straight-line basis in statement of profit or loss and comprehensive income over its estimated useful life, from the date on which it is available for use. The estimated useful life of software for the current and comparative periods is three years.

Property and equipment

Property and equipment are recognised if it is probable that future economic benefits associated with the assets will flow to the Company and cost of the asset can be reliably measured.

Property and equipment are stated at cost less accumulated depreciation and any impairment in value. The cost less estimated residual value of property and equipment is depreciated on a straight line basis over the estimated useful lives of the assets.

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

Leasehold improvements are amortised on a straight-line basis over the shorter of the useful life of the improvement or the term of the lease. Expenditure for repair and maintenance are charged to the statement of profit or loss and other comprehensive income. Improvements that increase the value or materially extend the life of the related assets are capitalised.

The carrying amount of an item of property and equipment is de-recognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the de-recognition of an item of property and equipment which is calculated as the difference between the carrying amount and the net disposal proceeds is included in the statement of profit or loss and other comprehensive income when the item is de-recognised.

The estimated useful lives of the assets for calculation of depreciation are as follows:

Leasehold improvements	Over the shorter of the useful life of the improvement or 5 to 10 years
Equipment and motor vehicles	3 years
Furniture and fixtures	5 years

Capital work in progress

Capital work in progress includes building under improvements for which it is probable that future economic benefits will flow to the Company and the cost can be measured reliably. Typically, these are items that have not yet been brought to the location and/or condition necessary for it to be capable of operating in the manner intended by management.

Financial assets recognition, measurement and subsequent measurement

All financial assets and liabilities are initially recognised on the trade date, i.e. the date which the Company becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

DEUTSCHE GULF FINANCE
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets held at fair value through other comprehensive income (continued)

Classification

Financial assets comprise real estate financing in the form of Ijara and held at fair value through other comprehensive income. The Company classifies these arrangements based on the business model assessment and contractual terms of the financing.

Initial recognition

Financial assets are initially recognized at fair value. The best evidence of the fair value of a financial asset at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. Financial assets are measured at fair value through other comprehensive income as the Company's business model meets the following conditions:

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

If the fair value at initial recognition differs from the transaction price and the fair value is not evidenced by a quoted price in an active market for an identical asset, then the financial asset is initially measured at fair value and any difference between the fair value at initial recognition and the transaction price is deferred and amortised over the life of the asset.

Subsequent measurement

Financial assets are subsequently measured at fair value through other comprehensive income with any gains or losses arising on re-measurement are recognized in the statement of other comprehensive income.

Impairment

The Company recognizes loss allowance for expected credit losses ("ECL") on financial assets that are debt instruments measured at fair value through other comprehensive income. The Company measures loss allowance at an amount equal to life time ECL, except for the following which are measured as 12-month ECL:

- Financial assets that are determined to have low credit risk at the reporting date; and
- Financial assets on which credit risk has not increased significantly since their initial recognition

The Company considers financial assets to have low credit risk when their exposure with days past due ("DPD") is 60 days or less. 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.

For financial assets measured at fair value through other comprehensive income, no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Significant increase in credit risk

To determine 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, expert credit assessment and forward-looking information.

DEUTSCHE GULF FINANCE
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets held at fair value through other comprehensive income (continued)
Impairment (continued)

The Company compares the risk of default at the assessment date with the risk of default at initial recognition. This assessment is to be carried out at each assessment date. The Company assess for significant increase in credit risk (SICR) at a facility level and the main indicators for SICR are as follows:

- Real estate financing facilities with principal and commission which are past due by more than 60 days;
- restructured facilities due to credit risk over the last 12 months;
- facilities in watch-list;
- high risk events/attributes of customers (bankruptcy or other similar events); or
- any counter party identified by the senior management / board as having SICR and enhanced monitoring is required.

The Company consider exposures with 60+ DPD as having Significant Increase in Credit Risk and will accordingly be taken as Stage 2.

The Company classifies its financial assets into stage 1, stage 2 and stage 3, based on the applied impairment methodology, as described below:

Stage 1: For financial assets where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, the Company recognises an allowance based on the 12-month ECL and income is calculated on the gross carrying amount of asset (i.e. without deduction of credit allowance. All accounts at origination would be classified as Stage 1 only exceptions are Purchased or Originated Credit Impaired (POCI) assets (if any).

Stage 2: For financial assets where there has been a significant increase in credit risk since initial recognition but are not credit-impaired (i.e. there is no objective evidence of impairment), the Company recognises an allowance for the lifetime ECL. With respect to portfolio held by the Company, all the exposures are moved to stage 2 where the customer is 60+ DPD (Principal or commission payments) as of reporting date.

In addition, the account tagged as watch list / restructured as of reporting date, including being tagged as watch list / restructured in last 12 months, are classified in stage 2. Further, any counterparty identified by senior management / board as having SICR and for which enhanced monitoring is required, will also be subject to stage 2 ECL calculation.

Stage 3: For credit-impaired (i.e. there is objective evidence of impairment at reporting date) financial instruments, the Company recognises the lifetime ECL. Default identification process i.e. 120+ DPD more (obligors already defaulted) is used as stage 3.

Credit risk Days Past Due (DPD) Buckets

The Company allocates each exposure to a credit risk DPD buckets using qualitative and quantitative factors that are indicative of risk of default. Credit risk DPD buckets are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates. Each exposure is allocated to a credit risk DPD buckets at initial recognition based on available information about the counterparty. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk DPD buckets.

Definition of default

The Company uses 120+ DPD on principal and commission repayments as a hard stop default definition along with certain other unlikeliness-to-pay (UTP) indicators defined in risk management policies.

DEUTSCHE GULF FINANCE
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets held at fair value through other comprehensive income (continued)

Impairment (continued)

Incorporation of forward looking information

The Company incorporates forward-looking information in both the assessment of significant increase in credit risk and the measurement of ECLs. The Company considers forward-looking information such as macroeconomic factors (e.g. GDP growth, net debt and net lending) and economic forecasts. Given the nature of Company's exposure and availability of historical statistical information, the Company derives Point-in-Time (PIT) PD using Through the Cycle (TTC) PD calculated through Loss rate estimation method. The Company uses the Vasicek model to link the TTC PDs with forward looking economic factors to derive PIT PD estimate for each DPD bucket.

Measurement of ECL

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

- i. Probability of default (PD);
- ii. Loss given default (LGD);
- iii. Exposure at default (EAD).

These parameters are generally derived from internally developed statistical models using 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 models (loss rate estimation method), and assessed to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. If a counterparty or exposure migrates between DPD buckets, 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, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For real estate financing secured by property, LTV ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor. Due to the size of the Company's portfolio, there is insufficient historical LGD data to derive statistically reliable LGD estimates. Therefore, the Company benchmarks LGD to regulator guidelines.

Where the exposure is 100% or more collateralized (i.e. the value of the collateral after haircut is equal to or greater than the exposure), the Company imposes a LGD floor (recovery cap) for real estate financing.

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.

De recognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership.

When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial liability

Financial liabilities are classified as measured at amortised cost using the effective yield method. Finance expense and foreign exchange gains and losses are recognised in profit or loss and other comprehensive income. Any gain or loss on derecognition is also recognised in profit or loss and other comprehensive income.

Cash and cash equivalents

Cash and cash equivalents consists of cash in hand, bank balances in current accounts, short-term deposits with original maturity of 90 days or less from the date of investment and cash on hand.

Fair values of financial instruments

The Company measures financial instruments, such as, real estate financing at fair value at each reporting 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 by 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 categorised 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

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 has determined 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.

The Company's management determines the policies and procedures for both recurring fair value measurement, such as unquoted equity investments, and for non-recurring measurement, such as assets held for distribution in discontinued operations whenever applicable.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Statutory reserve

As required by Saudi Arabian Regulations for Companies and the Company's By-laws, 10% of the income for the year (after zakat and income tax and after deducting losses brought forward) should be transferred to the statutory reserve. This reserve is not available for distribution. As per the By-laws, the Company may resolve to discontinue such transfers when the reserve totals 30% of the capital. Due to accumulated losses, no such transfer was made during the year. The statutory reserve can be transferred to offset the accumulated losses with the approval from the shareholders' of the Company.

Accrued expenses and other payables

Liabilities are recognised for amounts to be paid in future for goods or services received, whether billed by the supplier or not.

Provisions

Provisions are recognised when the Company has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and can be measured reliably.

4. CRITICAL ACCOUNTING JUDGEMENT, ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting judgements, estimates and assumptions 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 judgements, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advices and expectations of future events that are believed to be reasonable under the circumstances. Significant areas where management has used judgements, estimates and assumptions are as follows:

i) *Business model – classification of financial assets*

In making an assessment whether a business model's objective is to hold assets in order to collect contractual cash flows, the Company considers at which level of its business activities such assessment should be made. Generally, a business model is a matter of fact which can be evidenced by the way business is managed and the information provided to management.

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4. CRITICAL ACCOUNTING JUDGEMENT, ESTIMATES AND ASSUMPTIONS
(CONTINUED)

However, in some circumstances it may not be clear whether a particular activity involves one business model with some infrequent asset sales or whether the anticipated sales indicate that there are two different business models. In determining whether its business model for managing financial assets is to hold assets in order to collect contractual cash flows the Company considers:

- management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- how management evaluates the performance of the portfolio;
- whether management's strategy focuses on earning contractual special commission income;
- the degree of frequency of any expected asset sales;
- the reason for any asset sales; and
- whether assets that are sold are held for an extended period of time relative to their contractual maturity or are sold shortly after acquisition or an extended time before maturity.

ii) *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. (See note 23 (iv)). 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 continue to be prepared on a going concern basis.

iii) *Fair value of financial instruments*

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flow model and recent transactions. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

iv) *Impairment of financial instruments*

When determining whether the risk of default on 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. In particular, management judgment is required in determining the impairment of financial instrument. These estimates are based on assumptions about a number of factors and actual results may differ, resulting future changes to the impairment allowance made.

5. NEW ACCOUNTING STANDARDS ISSUED BUT NOT EFFECTIVE AS AT REPORTING DATE

Following is a brief on the relevant new IFRS, effective for annual periods beginning on or after 1 January 2018:

- IFRS 15 – "Revenue from Contracts with Customers" applicable from January 1, 2018 presents a five-step model to determine when to recognize revenue, and at what amount. The application of this standard could have a significant impact on how and when revenue is recognized (except for contracts that are within the scope of the Standards on leases, insurance contracts and financial instruments), with new estimates and judgments, and the possibility of revenue recognition being accelerated or deferred. The Company is currently assessing the implication and effects of adopting IFRS 15 and the management believe that adoption of IFRS 15 will not have a material impact on the Company's financial statements.

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5. NEW ACCOUNTING STANDARDS ISSUED BUT NOT EFFECTIVE AS AT REPORTING DATE (CONTINUED)

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

6. EMPLOYEES' BENEFITS AND COMPENSATION

	For the year ended 31 December	
	<u>2017</u>	<u>2016</u>
Employees' salaries and benefits	16,012,124	16,375,743
Bonus	3,500,000	4,800,000
Commission	2,026,667	3,581,052
Employees' health insurance	1,382,820	1,431,232
Others	1,066,363	996,203
	<u>23,987,974</u>	<u>27,184,230</u>

7. OTHER GENERAL AND ADMINISTRATION EXPENSES

	For the year ended 31 December	
	<u>2017</u>	<u>2016</u>
Professional fee	3,575,541	1,757,935
Takaful expenses	3,291,011	3,164,405
Rent	2,756,890	2,901,129
Executive Board fee	1,650,000	1,680,500
Processing and marketing expenses	1,286,312	974,625
Utilities	576,279	637,852
Cleaning services	245,310	444,840
Travel and lodging	248,314	332,836
Sharia Board fee	160,000	55,000
Others	1,024,628	1,060,281
	<u>14,814,285</u>	<u>13,009,403</u>

8. ZAKAT AND INCOME TAX

Zakat is a levy as defined by the GAZT in the Kingdom of Saudi Arabia. Zakat is levied on the total of the Company's capital resources and income that are not invested in fixed assets. Such resources include the Company's capital, net profits, retained earnings (accumulated losses) and reserves not created for specific liabilities. Only resources (including income) which have been held for at least 12 months are subject to Zakat attributable to the Saudi shareholders of the Company at the rate of 2.5% per annum.

Income tax charge for the year has been calculated based on adjusted net income of the Company attributable to Non-Saudi shareholders at the rate of 20% per annum.

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8. ZAKAT AND INCOME TAX

8(a) A summary of the Company's share capital and percentages (%) of ownership are follows:

As of 31 December 2016 and 2017, the authorized, issued and fully paid-in share capital of the Company consists of 57.5 million shares of SR 10 each. The Company's zakat and income tax calculations and corresponding accruals and payments of zakat and income tax are based on the following ownership percentages in accordance with the relevant provisions of the Saudi Arabian Zakat and Income Tax regulations.

	31 December 2017		31 December 2016	
	SR	%	SR	%
Shareholding - subject to zakat	407,555,460	70.88	407,555,460	70.88
Shareholding - subject to income tax	167,444,540	29.12	167,444,540	29.12
	575,000,000	100.00	575,000,000	100.00

8(b) The movement in zakat and income tax for the year ended 31 December is as follow:

	2017		
	<u>Zakat</u>	<u>Income tax</u>	<u>Total</u>
Balance at the beginning of the year	1,673,458	2,918,935	4,592,393
Charge for the year			
- For current year	1,625,551	1,809,814	3,435,365
- For prior years	3,621,702	--	3,621,702
- Reclassification adjustments	1,657,343	(1,657,343)	--
	6,904,596	152,471	7,057,067
Payments made during the year	(614,111)	(1,261,592)	(1,875,703)
Balance as at end of the year	7,963,943	1,809,814	9,773,757
	2016		
	<u>Zakat</u>	<u>Income tax</u>	<u>Total</u>
Balance at the beginning of the year	1,417,333	1,960,578	3,377,911
Charge for the year			
- For current year	727,299	1,770,295	2,497,594
Payments made during the year	(471,174)	(811,938)	(1,283,112)
Balance as at end of the year	1,673,458	2,918,935	4,592,393

(b)(i) Zakat charge for the prior years represents an additional provision amounting to SR 1.4 for the assessed year 2010 and an estimated additional provision amounting to SR 2.2 million for the years 2011 to 2016. (Refer note 8(c))

8(c) Status of assessments:

Zakat and income tax declaration for all the years up to 2016 have been filed with the General Authority of Zakat and Tax ("GAZT") and acknowledgement certificates have been obtained. Further, the Company has received assessments for years 2010 to 2012.

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8. ZAKAT AND INCOME TAX (CONTINUED)

The Company has received assessments from GAZT in relation to the non-deduction of Ijara receivables from zakat base, which remains an industry-wide issue. The Company has made the following payments to GAZT as part of its appeal process in relation to the above assessments. The status of the assessments are as follows:

<u>Particulars</u>	<u>Amounts paid</u>	<u>Status of assessment</u>
Assessment for 2010	3,687,804	During the year, the Company has received the HAC resolution and recorded an additional liability amounting to SR 1.4 million. The Company is waiting for revised assessment from GAZT.
Assessment for 2011-2012	6,530,001	The Company is currently waiting for the HAC hearing date. However, as mentioned in note 8(b)(i) above the Company has made an estimated provision against these assessment.
	<u>10,217,805</u>	

9. CASH AND CASH EQUIVALENTS

		<u>2017</u>	<u>2016</u>
Bank balances – current accounts	<i>Note 9(a)</i>	34,456,493	18,870,173
Short-term deposit	<i>Note 9(b)</i>	65,098,313	--
		<u>99,554,806</u>	<u>18,870,173</u>

9(a) This represents cash with banks who have investment grade credit ratings, as rated by the international rating agencies. As at 31 December 2017, it includes an amount of SR 5.27 million (31 December 2016: SR 3.93 million) collected by the Company from the sold financial assets on behalf of the buyers of previously sold financial assets. (*Refer note 18(a)*)

9(b) Short-term deposit is placed with a counterparty, which has investment grade credit rating, as rated by international rating agency. Short-term deposit is denominated in Saudi Riyals and is made for a period of less than 90 days from the date of original acquisition.

10. ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES

		<u>2017</u>	<u>2016</u>
Amount recoverable from tax authorities	<i>Note 8(c)</i>	10,217,805	10,217,805
Receivable from Real Estate Development Fund		1,725,000	3,550,000
Receivable from early-settled Ijara facilities		1,004,813	2,965,522
Advance against investment		892,850	--
Prepaid expenses		553,863	2,969,063
Service fee receivable		454,064	296,000
Security deposits		103,979	103,979
Staff receivables		88,628	503,564
		<u>15,041,002</u>	<u>20,605,933</u>

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11. FINANCIAL ASSETS HELD AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Financial assets represent real estate financing in the form of Ijara.

11(a) The maturity of the gross financial assets held is as follows:

	<u>2017</u>	<u>2016</u>
Not later than one year	112,609,885	125,103,948
Later than one year but not later than five years	408,949,784	437,253,544
Later than five years	917,704,374	992,382,720
	<u>1,439,264,043</u>	<u>1,554,740,212</u>

Financial assets held at fair value through other comprehensive income have an original term period of 5 to 30 years. The movement in expected credit losses for the financial assets held at fair value through other comprehensive income for the years ended 31 December is as follows:

	<u>2017</u>	<u>2016</u>
ECL allowance as at 1 January	(14,762,577)	(14,104,213)
Net measurement of ECL allowance for the year	(1,397,958)	(658,364)
ECL allowance as at 31 December	<u>(16,160,535)</u>	<u>(14,762,577)</u>

11(b) Credit quality and expected credit loss allowance of financial assets measured at fair value through other comprehensive income are as follows:

	Financial assets held at FVOCI - carrying amount	ECL allowance as at 31 December 2017			Total ECL
		12-month ECL	Life time ECL not credit-impaired	Lifetime ECL credit-impaired	
Stage 1					
<i>Current</i>	920,793,587	398,418	--	--	398,418
<i>30 days</i>	152,052,820	623,449	--	--	623,449
<i>31 – 60 days</i>	144,340,777	1,809,414	--	--	1,809,414
Stage 2					
<i>61 – 90 days</i>	67,852,557	--	3,333,740	--	3,333,740
<i>91 – 120 days</i>	35,708,497	--	2,195,040	--	2,195,040
Stage 3					
<i>> 120 days</i>	118,515,805	--	--	7,800,474	7,800,474
Total	<u>1,439,264,043</u>	<u>2,831,281</u>	<u>5,528,780</u>	<u>7,800,474</u>	<u>16,160,535</u>

The title deeds of the properties for which financing have been provided are held by an affiliated company (Gulf Company for Acquisition). The fair value of financial assets is based on transaction price at which the Company has affected the sales. These are not traded in an active market and consequently the fair value is dependent on secondary market transactions (note 23).

The Company in the ordinary course of financing holds collaterals as security to mitigate credit risk. These collaterals mostly include real estate. The collaterals are held against financing facilities and are managed against relevant exposures at their net realisable values. Management monitors the market value of the collateral and requests additional collateral in accordance with the underlying agreement when deemed necessary. Because of the Company's focus on credit worthiness of its customers, the Company does not routinely update the valuation of collateral held against all loans. Valuation of collateral is updated when the loan is put on the watch list and then the loan is monitored more closely. The fair value of collateral based on the appraisal at the time of origination of the financial assets, held by Company by each category are as follows:

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11. FINANCIAL ASSETS HELD AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTINUED)

	<u>2017</u>	<u>2016</u>
<i>Current</i>	1,751,868,486	2,147,155,867
30 days	275,485,983	332,873,581
31 – 60 days	264,003,227	135,700,386
61 – 90 days	119,285,441	80,408,981
91 – 120 days	62,081,340	48,967,461
> 120 days	205,658,194	123,116,703
	<u>2,678,382,671</u>	<u>2,868,222,979</u>

12. DEFERRED INCOME

This represents the difference between the fair value at initial recognition and the transaction price and amortised over the life of the financial assets held at fair value through other comprehensive income.

13. INTANGIBLE ASSETS

	<u>2017</u>	<u>2016</u>
<i>Cost:</i>		
At the beginning of the year	5,908,762	5,853,737
Additions during the year	157,500	55,025
At the end of the year	<u>6,066,262</u>	<u>5,908,762</u>
<i>Accumulated amortisation:</i>		
At the beginning of the year	5,761,962	5,659,520
Charge for the year	128,706	102,442
At the end of the year	<u>5,890,668</u>	<u>5,761,962</u>
<i>Net book value:</i>		
At 31 December	<u>175,594</u>	<u>146,800</u>

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14. PROPERTY AND EQUIPMENT

<i>Cost:</i>	<u>Land</u>	<u>Leasehold improvements</u>	<u>Furniture and fixtures</u>	<u>Equipment and motor vehicles</u>	<u>Building improvement work in progress</u>	<u>Total 2017</u>	<u>Total 2016</u>
At the beginning of the year	--	3,726,876	3,731,888	8,258,186	--	15,716,950	16,264,034
Additions during the year	12,250,000	375,818	--	307,927	4,745,000	17,678,745	362,094
Disposals during the year	--	--	--	--	--	--	(909,178)
At the end of the year	12,250,000	4,102,694	3,731,888	8,566,113	4,745,000	33,395,695	15,716,950
<i>Accumulated depreciation:</i>							
At the beginning of the year	--	1,006,733	3,484,961	7,809,894	--	12,301,588	11,857,707
Charge for the year	--	559,492	83,036	397,924	--	1,040,452	1,097,903
Disposals during the year	--	--	--	--	--	--	(654,021)
At the end of the year	--	1,566,225	3,567,997	8,207,818	--	13,342,040	12,301,589
<i>Net book value:</i>							
At 31 December 2017	12,250,000	2,536,469	163,891	358,295	4,745,000	20,053,655	
At 31 December 2016	--	2,720,141	246,928	448,292	--		3,415,361

During the year ended 31 December 2017, the Company purchased land and building amounting to SR 12.2 million and SR 4.5 million respectively for the purpose of its head office. The above purchased building is not currently available for use and the Company has incurred an amount of SR 0.2 million in relation to improvement work to the building till 31 December 2017. Considering this, the Company has classified the purchase consideration and building improvement work under capital work in progress. The above purchased land is registered in the name of Gulf Company for Acquisition, an affiliated company. However, since the Company is the beneficial owner, it has been recorded in the Company's books.

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15. SHORT-TERM BORROWINGS

These represent bank borrowings from local commercial banks which are secured by the assignment of proceeds from certain financial assets and pledge of title deeds of underlying real estate assets. These borrowings carry mark-up at commercial rates and are repayable during the year 2018. The movement in the short-term borrowings balance for the years ended 31 December is as follows:

	<u>2017</u>	<u>2016</u>
Balance at the beginning of the year	997,254,308	911,296,519
Proceeds during the year	7,487,222,892	8,810,252,930
Repayment during the year	<u>(7,557,235,378)</u>	<u>(8,724,295,141)</u>
Balance at the end of the year	<u>927,241,822</u>	<u>997,254,308</u>

16. ACCRUED EXPENSES AND OTHER LIABILITIES

	<i>Note</i>	<u>2017</u>	<u>2016</u>
Accrued expenses		15,040,240	11,979,615
Advances from customers		8,379,658	6,186,635
Instalments payable on previously sold financial assets	<i>16a</i>	<u>5,274,967</u>	<u>3,935,105</u>
		<u>28,694,865</u>	<u>22,101,355</u>

16(a) This represents amount of instalments collected by the Company on behalf of buyers of previously sold financial assets.

17. RELATED PARTIES TRANSACTIONS AND BALANCES

The Company carries out transactions with related parties who are defined as related parties in the International Accounting Standard – IAS 24 “Related party Disclosures” in the ordinary course of its business.

Key Management Personnel (KMP) are those having authority and responsibility for planning, directing and controlling the activities of the Company. Accordingly, the Company’s KMP includes the Board of Directors (including executive and non-executive directors) and selected key employees who meet the above criteria.

Close family members (CFMs) of KMP’s are those family members who may be expected to influence, or be influenced by that KMP in their dealings with the Company. CFMs may include the domestic partners and children of KMP, the children of KMP’s domestic partner and parents, grandparents, brothers and sisters, grandchildren and other dependents of KMP and the KMP’s domestic partner.

The Company’s shareholders and all their affiliates are considered as related party of the Company. In the ordinary course of business, the Company enters into transactions with its related parties, which are based on prices and contract term approved by the Company’s management.

Details of significant transactions and balances with related parties during the year, other than those which have been disclosed elsewhere in these financial statements, are disclosed in this note.

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17. RELATED PARTIES TRANSACTIONS AND BALANCES (CONTINUED)

The following are the details of significant related party transactions during the years ended 31 December:

<u>Related party</u>	<u>Nature of transaction</u>	<u>Note</u>	<u>2017</u>	<u>2016</u>
Key management personnel	Short-term employment benefits:			
	- <i>Remuneration</i>		4,145,759	5,083,850
	- <i>Bonus</i>		1,400,000	3,129,052
	- <i>Board fees</i>		1,650,000	1,680,500
	End of service benefits		146,121	268,962
Gulf Company for Acquisition – An affiliated company	Service fee	17(a)	148,705	230,933

The following related party balances are included in the statement of financial position as at 31 December:

<u>Related party</u>	<u>Nature of balance</u>	<u>Notes</u>	<u>2017</u>	<u>2016</u>
Key management personnel	Board fees payable		2,035,657	1,657,002
	Bonus payable		1,400,000	3,129,052
	Employees' end of service benefits		509,678	999,437
Gulf Company for Acquisition – An affiliated company	Due from related parties:			
	- <i>Loan</i>	17(b)	3,953,220	3,953,220
	- <i>Expenses paid on behalf of affiliated company</i>	17(c)	29,745	--
			<u>3,982,965</u>	<u>3,953,220</u>
	Due to related parties:			
	- <i>Service fee payable</i>	17(a)	<u>379,638</u>	<u>230,933</u>

17(a) This represents service fee charged by an affiliated company in relation to holding customers title deeds on behalf of the Company.

17(b) This represents an interest-free loan to an affiliated company which has no fixed repayment date.

17(c) This represents expenses paid by the Company on behalf of its affiliated company.

17(d) In addition to the above transactions, the Company has deducted WHT of SR 12 million from an affiliated company during the year 2010 from the business documentation fee payable and paid to Higher Appeal Committee as part of its appeal process. This amount will be payable to affiliated company after recovering from the GAZT.

18. SHARE CAPITAL

As at 31 December 2017, the authorised, issued and fully paid-up share capital of the Company was divided into 57,500,000 shares (31 December 2016: 57,500,000 shares) of SR 10 each.

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19. STATUTORY RESERVE

In accordance with the Company's By-laws, the Company is required to transfer at least 10% of net income to a statutory reserve until such reserve equals 30% of its paid up capital as a minimum. This reserve is not available for distribution. The Company has not transferred any amount to statutory reserve during the year due to its accumulated losses.

20. EARNINGS PER SHARE

The basic and diluted earnings per share are calculated by dividing the net income for the year by weighted average number of outstanding shares at the year-end. The weighted average numbers of shares as of 31 December 2017 is 57,500,000 (31 December 2016: 57,500,000).

21. OPERATING LEASE COMMITMENTS

Payments under operating leases recognised as an expense during the year amounted to SR 2,756,890 (2016: SR 2,901,127). Operating lease payments represent rentals payable by the Company for Riyadh head office, Khobar Branch and Jeddah Branch.

Future minimum lease payments under the operating lease arrangements as at 31 December are as follows:

	<u>2017</u>	<u>2016</u>
Less than one year	238,759	2,738,880

22. RISK MANAGEMENT

Financial instruments carried on the statement of financial position comprise cash and cash equivalents, financial assets held at fair value through other comprehensive income, other receivables, due from related parties, short-term borrowings, due to related parties and other liabilities.

The Company's activities expose it to a variety of financial risks: market risk (including currency risk and special commission rate risks), credit risk, liquidity risk and operational risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. Risk management is carried out under policies approved by the Board of Directors. The oversight of risk management is done by the Credit and Risk Committee established by the Company's Board of Directors.

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

(i) *Currency risk*

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company is subject to fluctuations in foreign exchange rates in the normal course of its business. During the year, the Company did not undertake any transactions in currencies other than Saudi Riyals and US Dollars. As Saudi Riyals is pegged with US Dollars, no significant currency risk was identified as at the financial reporting date.

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22. RISK MANAGEMENT (CONTINUED)

(ii) *Special commission rate risk*

Special commission rate risk is the risk that the value of financial instruments will fluctuate due to changes in market special commission rates. The Company is subject to variations in the fair value of its financial instruments and the net special commission income arising from changes to special commission rate on its real estate financing and short-term borrowings, which are generally priced on the floating SIBOR.

The sensitivity to a +/- 15 basis points change in special commission rates on real estate financing, with all other variables constant on the Company's total comprehensive income for the year is SR +/- 2,196,293 (2016: SR +/- 2,351,371).

The sensitivity to a +/- 15 basis points change in special commission rates on short-term bank borrowings, with all other variables constant on the Company's total comprehensive income for the year is SR +/- 1,390,863 (2016: SR +/- 1,495,881).

(iii) *Credit risk*

Credit risk is the risk of financial loss to the Company if a customer or counterparty fails to meet its contractual obligations and arises principally from the Company's financial assets held at fair value through other comprehensive income. The Company has established procedures to manage credit exposure including evaluation of customers' credit worthiness, formal credit approvals, obtaining collateral such as title of assets and personal guarantees.

Furthermore, all the loans are allowed for the maximum term of 360 months. As per such policy, an Ijara is not granted unless the borrower meets certain basic requirements, which are set out below:

- Age limit at the time of funding and contractual maturity
- Income earned
- Debt to income ratio
- Maximum finance to value ratio of 90%

The Company monitors its real estate financing on a weekly basis. Furthermore, all real estate financing are backed by the legal titles of those properties which are registered in the name of its affiliated Company.

In case of real estate financing past due for six months, the Company takes legal actions against the borrower and collects the receivable by selling the property against which the financing is provided. The Company has had proven success in completing this process and recovering its dues.

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

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	99,456,493	18,870,173
Financial assets held at fair value through OCI	1,439,264,043	1,554,740,212
Other receivables	4,279,019	6,915,501
Due from related parties	3,982,965	3,953,220
	<u>1,546,982,520</u>	<u>1,584,479,106</u>

Credit quality by class of financial assets

The Company manages the credit quality of financial assets based on its internal credit policy. The credit quality of real estate financing is given in note 11(b).

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22. RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Financial assets pledged as collateral

Financial assets are pledged as collateral for short-term borrowing purpose under terms that are usual to enter into agreement. At 31 December 2017, the pledged financial assets held at fair value through other comprehensive income were SR 1,148,964,684, (2016: SR 1,260,757,474).

Concentration of credit risk

The Company monitors the concentration of credit risk by sectors. As at 31 December, an analysis of risk concentration by sectors for its financial assets held at fair value through other comprehensive income is given below:

	<u>2017</u>	<u>2016</u>
Private sector	485,714,224	543,831,735
Government sector	342,357,484	347,486,293
Self employed	208,959,229	181,695,869
Semi-government	124,204,254	138,012,943
Military	110,356,075	186,185,666
Expatriate	103,604,483	114,077,319
Commercial sector	57,371,408	40,803,583
Real Estate Development Fund	6,696,886	2,646,804
	<u>1,439,264,043</u>	<u>1,554,740,212</u>

(iv) *Liquidity risk*

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

The table below summarises the maturity profile of the Company's financial liabilities at 31 December, based on contractual undiscounted repayment obligations. The contractual maturities of financial liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date.

<u>2017</u>	<u>On demand</u>	<u>Less than 3 months</u>	<u>3-12 months</u>	<u>1-5 Years</u>	<u>Total</u>
Short-term borrowings	--	927,241,822	--	--	927,241,822
Accrued expenses and other liabilities	--	5,274,967	23,419,898	--	28,694,865
Accounts and other payables	--	240,846	--	--	240,846
Due to related parties	379,638	--	--	--	379,638
Total	<u>379,638</u>	<u>932,757,635</u>	<u>23,419,898</u>	-	<u>956,557,171</u>

The Company's financial liabilities comprise short-term borrowings amounting to SR 927,241,822 as of 31 December 2017 (2016: SR 997,254,308). For amount due to related parties, the Company has an implicit understanding with the related parties that their respective payable balance would be repaid at the Company's discretion based on usage and requirements of funds.

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22. RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

<u>2016</u>	<u>On demand</u>	<u>Less than 3 months</u>	<u>3-12 months</u>	<u>1-5 Years</u>	<u>Total</u>
Short-term borrowings	--	997,254,308	--	--	997,254,308
Accrued expenses and other liabilities	--	3,935,105	18,166,250	--	22,101,355
Accounts and other payables	--	267,613	--	--	267,613
Due to related parties	230,933	--	--	--	230,933
Total	<u>230,933</u>	<u>1,001,457,026</u>	<u>18,166,250</u>	<u>-</u>	<u>1,019,854,209</u>

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

For the year ended 31 December 2017	<u>Less than 12 months</u>	<u>More than 12 months</u>	<u>Total</u>
Cash and cash equivalents	99,554,806	--	99,554,806
Other receivables	4,369,133	--	4,369,133
Financial assets held at FVOCI	112,609,885	1,326,654,158	1,439,264,043
Due from related parties	--	3,982,965	3,982,965
Total assets	<u>216,533,824</u>	<u>1,330,637,123</u>	<u>1,547,170,947</u>
Short-term bank financing	927,241,822	--	927,241,822
Due to related parties	--	379,638	379,638
Deferred income	4,914,398	22,124,472	27,038,870
Trade and other payables	240,846	--	240,846
Accrued expenses and other liabilities	28,694,865	--	28,694,865
Total liabilities	<u>961,091,931</u>	<u>22,504,110</u>	<u>983,596,041</u>
Net	<u>(744,558,107)</u>	<u>1,308,133,013</u>	<u>563,574,906</u>
For the year ended 31 December 2016	<u>Less than 12 months</u>	<u>More than 12 months</u>	<u>Total</u>
Cash and cash equivalents	18,870,173	--	18,870,173
Other receivables	6,915,501	--	6,915,501
Financial assets held at FVOCI	125,103,949	1,429,636,263	1,554,740,212
Due from related parties	--	3,953,220	3,953,220
Total assets	<u>150,889,623</u>	<u>1,433,589,483</u>	<u>1,584,479,106</u>
Short-term bank financing	997,254,308	--	997,254,308
Due to related parties	--	230,933	230,933
Deferred income	2,232,332	25,246,744	27,479,076
Trade and other payables	267,613	--	267,613
Accrued expenses and other liabilities	22,101,355	--	22,101,355
Total liabilities	<u>1,021,855,608</u>	<u>25,477,677</u>	<u>1,047,333,285</u>
Net	<u>(870,965,985)</u>	<u>1,408,111,806</u>	<u>537,145,821</u>

The maturity profiles are based on the contractual maturity and estimated timing of net cash inflows and outflows from the recognized assets and liabilities respectively. The Company's main activity is to provide real estate financing in the form of Ijara and these originated real estate financing (i.e. financial assets held at FVOCI) are held within a business model whose objective is achieved by both collecting contractual cash flows and selling. In line with the said business model, the Company sold part of its financial assets in the current year and in prior years as well.

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22. RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

In addition, the Company has entered into short-term revolving financing arrangements with various commercial banks operating in the Kingdom of Saudi Arabia. These short-term facilities are for a period up to five years and can be renewed, if required. Further, the Company has signed a strategic partnership refinancing deal of SR 1 billion during the year with Saudi Real Estate Refinance Company ("SRC").

23. FAIR VALUES 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 are accessible by the Company.

Financial instruments comprise of real estate financing and short-term bank financing.

Fair value hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The table below presents the financial instruments at their fair values as of 31 December based on the fair value hierarchy:

	31 December 2017			
	Level 1	Level 2	Level 3	Total
Financial assets held at fair value through other comprehensive income	--	--	1,439,264,043	1,439,264,043
Total	--	--	1,439,264,043	1,439,264,043
	31 December 2016			
	Level 1	Level 2	Level 3	Total
Financial assets held at fair value through other comprehensive income	--	--	1,554,740,212	1,554,740,212
Total	--	--	1,554,740,212	1,554,740,212

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23. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

The value of real estate financing are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Company's best information, the Company's financial instruments qualify for Level 3 disclosure as set out by the IFRS requirements.

The valuation of financial assets held at fair value through other comprehensive income is estimated using contractual cash flows discounted at yield, which is the contracted profit rate plus the prevailing Saudi Inter Bank offer rates (SIBOR). Input into the discounted cash flow techniques includes SIBOR, contractual cash flows and primary origination spreads. The Company's financial instruments comprises facilities granted on floating rate. These facilities are re-priced based on the change in SIBOR, the Ijara contracts allows the Company to change the contracted rate if there is an increase between the contracted rate and the market rate on annual basis.

For other financial instruments, the management assessed that their carrying amounts largely approximate fair value due to the short-term maturities of these instruments.

24. SEGMENT INFORMATION

The Company provides financing for real estate properties in the Kingdom of Saudi Arabia. All assets, liabilities and operations as reflected in the statement of financial position and statement of profit or loss and other comprehensive income belongs to the Ijara financing segment.

25. COMMITMENTS

The Company has outstanding commitment for providing Ijara base financing to customers amounting to SR 7,878,096 (31 December 2016: SR 9,675,781) for which agreements have been signed between the Company and customers.

26. COMPARATIVE INFORMATION

The presentation and classification of the following items in these financial statements are amended to ensure comparability with the current year.

Statement of financial position	<u>Note</u>	As disclosed previously	Current presentation	Adjustment
Property and equipment	26(a)	3,562,161	3,415,361	(146,800)
Intangible assets	26(a)	--	146,800	146,800
Statement of profit or loss and other comprehensive income	<u>Note</u>	As disclosed previously	Current presentation	Adjustment
Depreciation	26(b)	1,200,345	1,097,903	(102,442)
Amortisation	26(b)	--	102,442	102,442

26(a) Intangible assets net book value amounting of SR 146,800 previously classified as property and equipment have been reclassified as intangible assets.

26(b) Amortisation of intangible assets amounting of SR 102,442 previously classified as depreciation have been reclassified as amortisation.

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27. CHANGE IN ACCOUNTING POLICY

The change in the accounting policy has the following impacts on the line items of the statements of financial position and changes in shareholders' equity:

<u>Balance as at 1 January 2016</u>	<u>As previously reported</u>	<u>Effect of restatement</u>	<u>As restated</u>
Impact on statement of financial position - Deferred tax asset	4,295,671	(4,295,671)	--
Impact to statement of changes in shareholders' equity - Accumulated losses (Non-Saudi Shareholders)	(31,567,208)	(4,295,671)	(35,862,879)
<u>For the year ended 31 December 2016</u>	<u>As previously reported</u>	<u>Effect of restatement</u>	<u>As restated</u>
Provision for zakat and income tax, net - Accumulated losses (Non-Saudi Shareholders)	(1,875,835)	105,540	(1,770,295)

The above change in accounting policy did not have an impact on statement of profit or loss and other comprehensive and statement of cash flows for any of the periods presented.

28. APPROVAL OF THE BOARD OF DIRECTORS

The financial statements of the Company for the year ended 31 December 2017 were approved by the Board of Directors on 9 Jamad Al-Thani 1439H (Corresponding to 25 February 2018).