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

UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS AND REVIEW REPORT

FOR THE THREE MONTH AND NINE MONTH PERIODS ENDED 30 SEPTEMBER 2018

INDEX

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REVIEW REPORT

To the shareholders
Abdul Latif Jameel United Finance Company
(a Saudi Closed Joint Stock Company)

Introduction

We have reviewed the accompanying interim condensed statement of financial position of Abdul Latif Jameel United Finance Company (a Saudi Closed Joint Stock Company) (the "Company") as at 30 September 2018 and the related interim condensed statement of comprehensive income for the three month and nine month periods then ended and the interim condensed statements of changes in shareholders' equity and cash flows for the nine-month period then ended and a summary of significant accounting policies and explanatory notes which form an integral part of these interim condensed financial statements. The Company's management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Accounting Standard "Interim Financial Reporting" (IAS 34) as modified by Saudi Arabian Monetary Authority (SAMA) for accounting of zakat and income tax. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", as endorsed in the Kingdom of Saudi Arabia. A review of interim condensed financial statements consists of making inquiries, primarily of the persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISAs) as endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared, in all material respects, in accordance with IAS 34 as modified by SAMA for accounting of zakat and income tax.

for Ernst & Young

Ahmed I. Reda
Certified Public Accountant
License No. 356

23 October 2018
14 Safar 1440H

Jeddah

18/481/OO

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EY
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INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the three-month and nine-month periods ended 30 September 2018

	Notes	***For the three-month period ended 30 September 2018 SR'000***	*For the three-month period ended 30 September 2017 SR'000 (restated)*	***For the nine-month period ended 30 September 2018 SR'000***	*For the nine-month period ended 30 September 2017 SR'000 (restated)*
Revenues	3	**178,219**	255,099	**621,375**	860,022
Direct costs	4	**(41,459)**	(93,664)	**(213,270)**	(380,907)
GROSS MARGIN		**136,760**	161,435	**408,105**	479,115
Net gain on derecognition of receivables	12(c)	**70,693**	89,006	**234,112**	303,424
Net change in present value of assets and liabilities relating to derecognised receivables	12(iii)	**(6,267)**	(58,337)	**(23,884)**	(181,121)
TOTAL OPERATING INCOME		**201,186**	192,104	**618,333**	601,418
Selling and marketing expenses		**(88,428)**	(97,340)	**(263,819)**	(295,835)
General and administrative expenses		**(50,434)**	(36,661)	**(151,234)**	(119,239)
(Impairment charge)/reversal against lease and notes receivables	6 & 7	**5,463**	(38,307)	**42,063**	(83,885)
TOTAL OPERATING EXPENSES		**(133,399)**	(172,308)	**(372,990)**	(498,959)
INCOME FROM OPERATIONS, net		**67,787**	19,796	**245,343**	102,459
Finance charges		**(3,229)**	(3,351)	**(9,890)**	(10,110)
Finance income	10	**24,776**	9,046	**58,508**	26,826
Other income		**1,412**	7,136	**6,325**	26,547
NET INCOME FOR THE PERIOD		**90,746**	32,627	**300,286**	145,722
OTHER COMPREHENSIVE INCOME FOR THE PERIOD					
Items that may be reclassified to interim condensed statement of income					
Effect of reclassification of notes receivable from amortized cost to fair value through other comprehensive income	7.1	**58,607**	-	**58,607**	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**149,353**	32,627	**358,893**	145,722
Basic and diluted earnings per share (expressed in SR per share)	11	**0.53**	0.19	**1.77**	0.86

The attached notes 1 to 19 form part of these unaudited interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION (UNAUDITED)
As at 30 September 2018

	Notes	***30 September 2018 SR'000 Unaudited***	*31 December 2017 SR'000 Audited (restated)*	*30 September 2017 SR'000 Unaudited (restated)*
ASSETS				
NON-CURRENT ASSETS				
Property and equipment		**72,230**	79,830	108,085
Intangible assets		**16,253**	18,191	-
Investment classified as fair value through other comprehensive income		**893**	893	-
Net investment in finance lease	6	**650,935**	1,275,118	1,205,846
Notes receivable, carried at amortized cost	7	**20,200**	312,277	277,126
Notes receivable, carried at fair value through other comprehensive income	7	**460,779**	-	-
Other non-current assets		**32,488**	56,109	75,515
TOTAL NON-CURRENT ASSETS		**1,253,778**	1,742,418	1,666,572
CURRENT ASSETS				
Net investment in finance lease	6	**481,475**	505,748	491,464
Notes receivable, carried amortized cost	7	**46,015**	143,222	118,635
Inventories		**29,116**	39,045	101,981
Prepayments and other receivables		**335,974**	131,373	503,583
Due from related parties	9	**8,671**	29,942	152,517
Cash and bank balances	10	**3,722,471**	3,659,111	3,079,143
TOTAL CURRENT ASSETS		**4,623,722**	4,508,441	4,447,323
TOTAL ASSETS		**5,877,500**	6,250,859	6,113,895
SHAREHOLDERS' EQUITY AND LIABILITIES				
SHAREHOLDERS' EQUITY				
Share capital	1	**1,700,000**	1,700,000	1,700,000
Statutory reserve		**213,118**	213,118	184,693
Retained earnings		**1,956,538**	1,947,360	1,806,454
Fair value reserve	7.1	**58,607**	-	-
Actuarial gains, net		**45,832**	45,832	12,273
TOTAL SHAREHOLDERS' EQUITY		**3,974,095**	3,906,310	3,703,420
NON-CURRENT LIABILITIES				
Employee benefits liabilities		**107,116**	128,858	148,137
Other non-current liability	12c (ii)	**17,032**	21,431	17,396
TOTAL NON-CURRENT LIABILITIES		**124,148**	150,289	165,533
CURRENT LIABILITIES				
Accounts payable, accrued and other liabilities	8	**1,643,397**	2,020,356	2,044,874
Due to related parties	9	**135,860**	173,904	200,068
TOTAL CURRENT LIABILITIES		**1,779,257**	2,194,260	2,244,942
TOTAL LIABILITIES		**1,903,405**	2,344,549	2,410,475
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**5,877,500**	6,250,859	6,113,895

The attached notes 1 to 19 form part of these unaudited interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

For the nine-month period ended 30 September 2018

	Share capital SR'000	*Statutory reserve SR'000*	*Retained earnings SR'000*	*Fair value reserve SR'000*	*Actuarial gains, net SR'000*	*Total SR'000*
Balance as at 1 January 2018 (restated) (see note 15)	1,700,000	213,118	1,947,360	-	45,832	**3,906,310**
Impact of adopting IFRS 9 at 1 January 2018 (see note 2(e))	-	-	(6,908)	-	-	(6,908)
Restated balance as at 1 January 2018	1,700,000	213,118	1,940,452	-	45,832	**3,899,402**
Net income for the period	-	-	300,286	-	-	**300,286**
Effect of reclassification of notes receivable from amortized cost to fair value through other comprehensive income (note 7.1)	-	-	-	58,607	-	**58,607**
Total comprehensive income for the period	-	-	300,286	58,607	-	**358,893**
Zakat charge for the period (note 5)	-	-	(49,000)	-	-	**(49,000)**
Dividend paid during the period (see note 14)	-	-	(235,200)	-	-	**(235,200)**
Balance as at 30 September 2018 (unaudited)	**1,700,000**	**213,118**	**1,956,538**	**58,607**	**45,832**	**3,974,095**
Balance as at 1 January 2017 (audited)	1,700,000	184,693	1,738,132	-	12,273	3,635,098
Total comprehensive income for the period	-	-	145,722	-	-	145,722
Zakat charge for the period (note 5)	-	-	(77,400)	-	-	(77,400)
Balance as at 30 September 2017 (unaudited)	1,700,000	184,693	1,806,454	-	12,273	3,703,420

The attached notes 1 to 19 form part of these unaudited interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)
For the nine-month period ended 30 September 2018

	Notes	***For the nine-month period ended 30 September 2018 SR'000***	*For the nine-month period ended 30 September 2017 SR'000 (Restated)*
OPERATING ACTIVITIES			
Net income for the period		**300,286**	145,722
Adjustments to reconcile income for the period to net cash flows:			
Depreciation and amortisation		**19,438**	13,294
(Reversal)/impairment charge against lease and notes receivables	6 & 7	**(42,063)**	83,885
Finance charges		**9,890**	10,110
Finance income		**(58,508)**	(26,826)
Net gain on derecognition of receivables	12 (c)	**(234,112)**	(303,424)
Net change in present value of assets and liabilities relating to derecognition of receivables		**23,884**	181,121
Provision for employee benefits liabilities		**17,822**	11,973
		36,637	115,855
Changes in operating assets and liabilities:			
Net investment in finance lease		**900,039**	509,276
Notes receivable		**(19,088)**	(209,579)
Prepayments and other receivables and other non-current assets		**(180,980)**	(222,979)
Inventories		**9,929**	110,140
Due from related parties		**21,271**	(146,124)
Accounts payable, accrued and other liabilities and other non-current liability		**(377,533)**	(181,161)
Due to related parties		**(38,188)**	(62,008)
Cash from / (used) in operations		**352,087**	(86,580)
Employees benefits liabilities paid		**(39,420)**	(40,275)
Finance charges paid		**(9,890)**	(10,110)
Zakat paid	5	**(52,825)**	(34,767)
Net cash from / (used) in operating activities		**249,952**	(171,732)
INVESTING ACTIVITIES			
Purchase of property and equipment		**(9,900)**	(40,260)
Finance income received		**58,508**	26,826
Other deposits	10	**(575,655)**	(542,614)
Net cash used in investing activities		**(527,047)**	(556,048)
FINANCING ACTIVITY			
Dividend paid		**(235,200)**	-
Net cash used in financing activity		**(235,200)**	-
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(512,295)**	(727,780)
Cash and cash equivalents at the beginning of the period		**2,513,962**	2,800,896
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	10	**2,001,667**	2,073,116
NON-CASH TRANSACTION			
Employee benefits liabilities transferred out during the period		**144**	973

The attached notes 1 to 19 form part of these unaudited interim condensed financial statements.

1 ORGANIZATION AND ACTIVITIES

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

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

On 16 Safar 1436H (corresponding to 8 December 2014), the Company received a license from Saudi Arabian Monetary Authority (SAMA) to undertake activities of finance leasing, financing of productive assets and consumer financing in the Kingdom of Saudi Arabia under license number 28/AU/201412.

a) Share capital of the Company

As at 30 September 2018, 31 December 2017 and 30 September 2017, the share capital is owned as follows:

	No. of shares of SR 10 Each	***30 September 2018 Amount SR'000 Unaudited***	*31 December 2017 Amount SR'000 Audited*	*30 September 2017 Amount SR'000 Unaudited*
Al Mumaizah United Commerce Company Limited	**150,450,000**	**1,504,500**	1,504,500	1,504,500
Altawfiq United Company	**17,000,000**	**170,000**	170,000	170,000
Taif First United Company Limited	**850,000**	**8,500**	8,500	8,500
Bader First United Company Limited	**850,000**	**8,500**	8,500	8,500
Najed Al Raeda United Company Limited	**850,000**	**8,500**	8,500	8,500
	170,000,000	**1,700,000**	1,700,000	1,700,000

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

b) Insurance arrangement

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

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

c) Branches of the Company

As at 30 September 2018, the Company operates through 235 branches (31 December 2017: 235 branches) (30 September 2017: 232 branches). Certain branches are still registered in the name of UIS and are in the process of being transferred to the name of the Company. The accompanying interim condensed financial statements include the assets, liabilities and results of these branches as the beneficial owner of these branches is the Company.

2 BASIS OF PREPARATION

a. Statement of compliance

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

Applying the above, the interim condensed financial statements of the Company as at and for the period ended 30 September 2018 have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") as modified by Saudi Arabian Monetary Authority (SAMA) for accounting of zakat and income tax.

2 BASIS OF PREPARATION (continued)

a. Statement of compliance (continued)
These interim condensed financial statements do not include all the information required for the annual financial statements.

The Company has adopted IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" from 1 January 2018 and accounting policies for these new standards are disclosed in the note 2(f). In preparing these interim condensed financial statements, the significant judgments made by management are the same as those that applied to the financial statements for the year ended 31 December 2017, except for as disclosed in notes 2(e) and 2(f) below and note 13, considering IFRS 9 first time adoption.

b. Basis of measurement
These interim condensed financial statements are prepared under the historical cost convention using accrual basis accounting, except for the measurement at fair value of 'Investment classified as fair value through other comprehensive income' (FVOCI) and a segment of notes receivable portfolio.

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

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

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

The accounting estimates and assumptions used in the preparation of these interim condensed financial statements (as detailed below) are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2017, except for the changes in the accounting estimates as a result of adoption of IFRS 9 (as explained in note 2(f) below).

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

Determination of servicing liability
As explained in note 12, under the purchase and agency agreements, the Company has been appointed by the banks to service the receivables purchased by the banks. Assumptions used to calculate the servicing assets / liability are based on estimates of collection costs to be incurred by the Company over the life of the purchase and agency agreements.

Determination of expected defaults and discounts
As also explained in note 12, in order to calculate the net deferred consideration receivable under the purchase and agency agreements, the Company uses assumptions to calculate the allowance for delinquent receivables and discounts for premature terminations of contracts based on historical trends which are updated periodically (at least once in a year or more frequently when needed) based on a change in circumstances which indicate that the historical rates may not be appropriate.

2 BASIS OF PREPARATION (continued)

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

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

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

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

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

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

Provision for outstanding and incurred but not reported claims
Considerable judgment by management is required in the estimation of amounts due to contract holders arising from claims made under insurance contracts. Such estimates are necessarily based on significant assumptions about several factors involving varying, and possible significant, degrees of judgment and uncertainty. The actual results may differ from management’s estimates resulting in future changes in estimated liabilities.

As mentioned in note 1(b), as the Company is not retaining any insurance risk, all claims including those incurred but not reported, are recovered from the Insurer.

Provision for onerous arrangements
The Company enters into certain insurance arrangements with the insurers for the insurance against physical damages arising from accidents to all leased vehicles (see note 1(b)). For such lease contracts, the insurance related inflows, being the collections from the customers, are fixed whereas the outflows, being the premiums paid to the insurers are renewed annually.

At each interim condensed statement of financial position date, the Company’s management determines the best estimate of the future inflows and the related expected outflows over the period of the lease contract. In case the contracts are onerous, the provision for the onerous contracts is recognized. The actual results may differ from management’s estimates resulting in future changes in estimated provision.

2 BASIS OF PREPARATION (continued)

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

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

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

IFRS 15 Revenue from Contracts with Customers

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

IFRS 15 was issued in May 2014 and is effective for annual periods commencing on or after 1 January 2018. IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue guidance, which is found currently across several standards and interpretations within IFRS. It established a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Company has opted for the modified retrospective application permitted by IFRS 15 upon adoption of the new standard. Modified retrospective application also requires the recognition of the cumulative impact of adoption of IFRS 15 on all contracts as at 1 January 2018 in equity. There were no adjustments to opening retained earnings and other account balances on the adoption of IFRS 15.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

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

IFRS 9 Financial Instruments

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

Classification of financial assets and financial liabilities

Financial assets

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost ("AC"), fair value through other comprehensive income ("FVOCI") and fair value through statement of income ("FVIS"). This classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. For an explanation of how the Company classifies financial assets under IFRS 9, see respective section of significant accounting policies (see note 2(f)).

Financial liabilities

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

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

For an explanation of how the Company classifies financial liabilities under IFRS 9, see respective section of significant accounting policies (see note 2 (f)).

2 BASIS OF PREPARATION (continued)

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

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model ("ECL"). IFRS 9 requires the Company to record an allowance for ECLs for all loans and other debt financial assets not held at FVIS, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Company applies the impairment requirements of IFRS 9, see respective section of significant accounting policies. (see note 2 (f))

Transition

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

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

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

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

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

Financial assets and financial liabilities

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

Financial Asset

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

	Original classification under IAS 39	*New classification under IFRS 9*	*Original carrying value under IAS 39 SR '000*	*New carrying value under IFRS 9 SR '000*
Financial assets				
Notes receivables (see note 7)	Held to maturity	Amortized cost	455,499	456,012
Cash and bank balances	Held to maturity	Amortized cost	3,659,111	3,659,111
Employees' receivables	Loans and receivables	Amortized cost	26,898	26,898
Amount due from insurer	Loans and receivables	Amortized cost	79,621	79,621
Other receivables	Loans and receivables	Amortized cost	148	148
Due from related parties	Loans and receivables	Amortized cost	29,942	29,942
Investment classified as FVOCI	Available for sale	Fair value through other comprehensive income	893	893

2 BASIS OF PREPARATION (continued)

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

Financial assets and financial liabilities (continued)

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

	IAS 39 carrying amount as at 31 December 2017 SR '000	*Reclassification SR '000*	*Remeasurement SR '000*	*IFRS 9 carrying amount as at 1 January 2018 SR '000*
Amortized cost				
Notes receivables (see note 7(b))	455,499	-	513	456,012
Employees' receivables	26,898	-	-	26,898
Amount due from insurer	79,621	-	-	79,621
Other receivables	148	-	-	148
Due from related parties	29,942	-	-	29,942
Cash and bank balances	3,659,111	-	-	3,659,111
Total amortized cost	**4,251,219**	-	**513**	**4,251,732**
Fair value through other comprehensive income				
Investment classified as FVOCI	**893**	**-**	**-**	**893**

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

iii. Impact on retained earnings

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

2 BASIS OF PREPARATION (continued)

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

Financial assets and financial liabilities (continued)

iv. Impact on impairment allowance for financial assets

The following table reconciles the provision recorded as per the requirements of IAS 39 to that of IFRS 9:

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

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

IFRS 7 "Financial Instruments: Disclosure"

The Disclosures to reflect the differences between IAS 39 and IFRS 9, were also adopted by the Company together with IFRS 9, for the year beginning 1 January 2018. Changes include transition disclosures as shown in note 2(e) and (f), detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used are set out in note 13.

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

f. Significant accounting policies and estimates

The accounting policies, estimates and assumptions used in the preparation of these interim condensed financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2017, except for the policies explained below. Based on the adoption of new standards, interpretations and amendments, as explained in note 2(e), the following accounting policies, estimates and assumptions are applicable effective 1 January 2018 replacing/amending or adding to the corresponding accounting policies, estimates and assumptions set out in audited financial statements for the year ended 31 December 2017.

Significant accounting policies

Classification of financial assets

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

Financial Asset at amortised cost

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

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

2 BASIS OF PREPARATION (continued)

f. Significant accounting policies and estimates (continued)

Significant accounting policies (continued)

Classification of financial assets (continued)

Financial Asset at FVOCI

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

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

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

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

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

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

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

Business model assessment

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

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

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

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

During the nine months period ended 30 September 2018, the management of the Company reassessed the business model in respect of realization of the cash from its portfolio of notes receivables (see note 7).

2 BASIS OF PREPARATION (continued)

f. Significant accounting policies and estimates (continued)

Significant accounting policies (continued)

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

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

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

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

Classification of financial liabilities

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

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

Derecognition

Financial assets

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

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

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

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

Financial assets

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

2 BASIS OF PREPARATION (continued)

f. Significant accounting policies and estimates (continued)

Significant accounting policies (continued)

Modifications of financial assets and financial liabilities

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

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

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

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

No impairment loss is recognised on equity investments.

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

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

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

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

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

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

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

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

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

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

2 BASIS OF PREPARATION (continued)

f. Significant accounting policies and estimates (continued)

Significant accounting policies (continued)

Impairment (continued)

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

The forward-looking information will include the elements such as expert judgement, macroeconomic factors (e.g., oil prices, inflation, manufacturing purchasing manager's index and money supply) and economic forecasts obtained through internal and external sources.

Measurement of ECL

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

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

Restructured financial assets

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

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original special commission rate of the existing financial asset.

Credit-impaired financial assets

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

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

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

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

2 BASIS OF PREPARATION (continued)

f. Significant accounting policies and estimates (continued)

Significant accounting policies (continued)

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

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

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

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

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

Significant accounting estimates

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

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

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

2 BASIS OF PREPARATION (continued)

f. Significant accounting policies and estimates (continued)

Significant accounting estimates (continued)

Impairment of finance lease and notes receivable (continued)

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

At the reporting date, the allowance for doubtful debts relating to finance lease and notes receivable amounts to SR 201,502 thousand (31 December 2017: SR 171,127 thousand) (30 September 2017: 170,752 thousand) and SR 18,069 thousand (31 December 2017: SR 11,846 thousand) (30 September 2017: 10,419 thousand) respectively (see not 6 and note 7).

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

3 REVENUES

	For the three-month period ended 30 September 2018 SR'000 Unaudited	*For the three-month period ended 30 September 2017 SR'000 Unaudited*	***For the nine-month period ended 30 September 2018 SR'000 Unaudited***	*For the nine-month period ended 30 September 2017 SR'000 Unaudited*
Income from installment sales	**53,515**	96,456	**235,372**	370,439
Income from finance leases	**48,524**	63,885	**142,007**	200,085
Contract fee income	**8,189**	14,587	**30,713**	48,089
Income from purchase and agency agreements (see note 12)	**67,991**	80,171	**213,283**	241,409
	178,219	255,099	**621,375**	860,022

4 DIRECT COSTS

	For the three-month period ended 30 September 2018 SR'000 Unaudited	*For the three-month period ended 30 September 2017 SR'000 Unaudited (restated)*	***For the nine-month period ended 30 September 2018 SR'000 Unaudited***	*For the nine-month period ended 30 September 2017 SR'000 Unaudited (restated)*
Direct cost on installment sales	**34,212**	80,357	**178,192**	329,364
Direct cost on finance leases	**7,247**	13,307	**35,078**	51,543
	41,459	93,664	**213,270**	380,907

5 ZAKAT

During the nine months period ended 30 September 2018, an amount of SR 49.0 million has been recorded as zakat charge (30 September 2017: SR 77.4 million).

Status of zakat assessments
The General Authority of Zakat and Tax (GAZT) issued an assessment claiming additional zakat of SR 29.3 million for the period ended 31 December 2012. The Company filed an objection against the assessment. The GAZT recently issued a letter indicating their non-agreement with the objection submitted by the Company. The Company has submitted the objection to the GAZT to be forwarded to the Objection Committee. The zakat declarations for the year 2013 through 2017 are currently under reviewed by the GAZT. Further, the Company has a No objection letter from the GAZT valid upto 30 April 2019.

6 NET INVESTMENT IN FINANCE LEASE

	30 September 2018 SR'000 Unaudited	*31 December 2017 SR'000 Audited*	*30 September 2017 SR'000 Unaudited*
Gross investment in finance lease	**1,582,139**	2,408,502	2,311,922
Less: unearned finance income	**(248,227)**	(456,509)	(443,860)
	1,333,912	1,951,993	1,868,062
Less: allowance for doubtful debts (see note a)	**(201,502)**	(171,127)	(170,752)
Net investment in finance lease	**1,132,410**	1,780,866	1,697,310

	30 September 2018 (Unaudited)			
	Gross Investment SR'000	***Unearned finance income SR'000***	***Allowance for doubtful debts SR'000***	***Net Investment SR'000***
Current portion	804,378	(121,401)	(201,502)	**481,475**
Non-current portion	777,761	(126,826)	-	**650,935**
Total	1,582,139	(248,227)	(201,502)	**1,132,410**

	31 December 2017 (Audited)			
	Gross Investment SR'000	*Unearned finance income SR'000*	*Allowance for doubtful debts SR'000*	*Net Investment SR'000*
Current portion	872,094	(195,219)	(171,127)	505,748
Non-current portion	1,536,408	(261,290)	-	1,275,118
Total	2,408,502	(456,509)	(171,127)	1,780,866

	30 September 2017 (Unaudited)			
	Gross Investment SR'000	*Unearned finance income SR'000*	*Allowance for doubtful debts SR'000*	*Net Investment SR'000*
Current portion	850,583	(188,367)	(170,752)	491,464
Non-current portion	1,461,339	(255,493)	-	1,205,846
Total	2,311,922	(443,860)	(170,752)	1,697,310

6 NET INVESTMENT IN FINANCE LEASE (continued)

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

	For the nine-month period ended 30 September 2018 SR'000 Unaudited	*For the year ended 31 December 2017 SR'000 Audited*	*For the nine-month period ended 30 September 2017 SR'000 Unaudited*
At the beginning of the period/year	**171,127**	54,854	54,854
Adjustment for first time adoption of IFRS 9	**7,421**	-	-
At the beginning of the period (as per IFRS 9)	**178,548**	54,854	54,854
Net (reversal) / charge for the period/year	**(48,776)**	27,392	74,809
Provision transferred on closure of 'purchase and agency agreements' (see note 12 (c))	**71,730**	101,785	41,089
Amount written off during the period/year	-	(12,904)	-
At the end of the period/year	**201,502**	171,127	170,752

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

	30 September 2018 SR'000 Unaudited	*31 December 2017 SR'000 Audited*	*30 September 2017 SR'000 Unaudited*
1 – 3 months	**50,517**	51,135	54,583
4 – 6 months	**26,541**	25,719	23,348
7 – 12 months	**46,275**	32,016	26,602
More than 12 months	**49,099**	20,366	20,381
	172,432	129,236	124,914

The not yet due portion of above overdue finance lease receivables as of 30 September 2018 amounts to SR 634,233 thousands (31 December 2017: SR 444,343 thousands) (30 September 2017: SR 683,551 thousands).

7 NOTES RECEIVABLE

Notes receivable comprise of receivables arising from instalment sales of equipment and vehicles. For the purposes of these interim condensed financial statements, the notes receivable pertaining to instalment sale of vehicles have been carried at fair value through other comprehensive income (see note 7.1) and notes receivable pertaining to instalment sales of equipment have been carried at amortized cost (see note 7.2), as detailed below:

	30 September 2018 SR'000 Unaudited	*31 December 2017 SR'000 Audited*	*30 September 2017 SR'000 Unaudited*
Notes receivable carried at fair value through other comprehensive income (note 7.1 below)	**460,779**	-	-
Notes receivable carried at amortized cost (note 7.2 below)	**66,215**	455,499	395,761

7 NOTES RECEIVABLE (continued)

7.1 Notes receivable carried at fair value through other comprehensive income

During the period ended 30 June 2018, the management of the Company changed the business model in respect of realization of note receivables portfolio relating to instalment sales of vehicles. Previously, notes receivables were classified as 'Hold to Collect' financial asset and had been accounted for at 'Amortised Cost'.

As per the revised business model, the cash flows of such portfolio of notes receivables are expected to be realized through collection from the customers and/or through sale under purchase and agency agreements with banks (see note 12). Accordingly, such portfolio of notes receivables has been classified as 'Hold to Collect and Sell'.

Due to the change in the business model, such portfolio of notes receivables has been reclassified from 'Amortized Cost (AC)' to 'Fair Value Through Other Comprehensive Income (FVOCI)'. The amortised cost of these notes receivable as at 30 September 2018 was SR 402.2 million, whereas the fair value of this portfolio was determined to be SR 460.8 million. As a result, the Company has recognized a fair value gain of SR 58.7 million in the 'interim condensed statement of comprehensive income' during the nine month period ended 30 September 2018.

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

	For the nine-month period ended 30 September 2018 SR'000 Unaudited
Transferred on reclassification of notes receivable from amortized cost to fair value through other comprehensive income (see note 7.2 (a) below)	**9,540**
Provided during the period	**6,529**
Amount transferred on closure of 'purchase and agency agreements' (see note 12 (c))	**23**
	16,092

7.2 Notes receivable, carried at amortized cost

	30 September 2018 SR'000 Unaudited	*31 December 2017 SR'000 Audited*	*30 September 2017 SR'000 Unaudited*
Notes receivable, gross	**74,578**	590,876	516,262
Less: unearned finance income	**(6,386)**	(123,531)	(110,082)
	68,192	467,345	406,180
Less: allowance for doubtful debts (see note a)	**(1,977)**	(11,846)	(10,419)
Notes receivable, net	**66,215**	455,499	395,761

	30 September 2018 (Unaudited)			
	Notes Receivable, gross SR'000	***Unearned finance income SR'000***	***Allowance for doubtful debts SR'000***	***Notes receivable, net SR'000***
Current portion	51,844	(3,852)	(1,977)	**46,015**
Non-current portion	22,734	(2,534)	-	**20,200**
Total	74,578	(6,386)	(1,977)	**66,215**

7 NOTES RECEIVABLE (continued)

7.2 Notes receivable, carried at amortized cost

	31 December 2017 (Audited)			
	Notes Receivable, gross SR'000	*Unearned finance income SR'000*	*Allowance for doubtful debts SR'000*	*Notes Receivable, net SR'000*
Current portion	215,646	(60,578)	(11,846)	143,222
Non-current portion	375,230	(62,953)	-	312,277
Total	590,876	(123,531)	(11,846)	455,499

	30 September 2017 (Unaudited)			
	Notes Receivable, gross SR'000	*Unearned finance income SR'000*	*Allowance for doubtful debts SR'000*	*Notes receivable, net SR'000*
Current portion	181,869	(52,815)	(10,419)	118,635
Non-current portion	334,393	(57,267)	-	277,126
Total	516,262	(110,082)	(10,419)	395,761

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

	For the nine-month period ended 30 September 2018 SR'000 Unaudited	*For the year ended 31 December 2017 SR'000 Audited*	*For the nine-month period ended 30 September 2017 SR'000 Unaudited*
At the beginning of the period/year	**11,846**	1,318	1,318
Adjustment for first time adoption of IFRS 9	**(513)**	-	-
At the beginning of the period (as per IFRS 9)	**11,333**	1,318	1,318
Transferred on reclassification of notes receivable from amortized cost to fair value through other comprehensive income	**(9,540)**	-	-
Provided during the period/year	**184**	10,680	9,076
Amount transferred on closure of 'purchase and agency agreements' (see note 12 (c))	-	63	25
Amount written off during the period/year	-	(215)	-
At the end of the period/year	**1,977**	11,846	10,419

7 NOTES RECEIVABLE (continued)

7.2 Notes receivable carried at amortized cost (continued)

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

	30 September 2018 SR'000 Unaudited	*31 December 2017 SR'000 Audited*	*30 September 2017 SR'000 Unaudited*
1 – 3 months	**6,207**	3,541	3,202
4 – 6 months	**2,039**	887	992
7 – 12 months	**2,020**	784	586
More than 12 months	**1,190**	584	407
	11,456	5,796	5,187

The not yet due portion of above overdue notes receivables as of 30 September 2018 amounts to SR 124,025 thousand (31 December 2017: SR 70,283 thousands) (30 September 2017: 70,493 thousands).

8 ACCOUNTS PAYABLE, ACCRUED AND OTHER LIABILITIES

	30 September 2018 SR'000 Unaudited	*31 December 2017 SR'000 Audited (Restated)*	*30 September 2017 SR'000 Unaudited (Restated)*
Accounts payable – trade	**50,034**	107,396	62,161
Accrued expenses and zakat payable (see note 5)	**264,369**	266,568	313,462
Payable under purchase and agency agreements (see note 12(b))	**397,916**	627,326	481,522
Present value of net servicing liability – current portion (see note 12c(ii))	**35,029**	39,738	43,304
Provision for expected defaults and discounts under purchase and agency agreements (see note 12(i))	**730,020**	773,313	940,803
Amount due to the Insurer	**13,773**	30,467	36,850
Advance collections and other payables	**152,256**	175,548	166,772
	1,643,397	2,020,356	2,044,874

9 RELATED PARTY TRANSACTIONS AND BALANCES

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

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

Related party	**Nature of transaction**	***For the three-month period ended 30 September 2018 SR'000 Unaudited***	*For the three-month period ended 30 September 2017 SR'000 Unaudited*	***For the nine-month period ended 30 September 2018 SR'000 Unaudited***	*For the nine-month period ended 30 September 2017 SR'000 Unaudited*
Ultimate Parent	Purchases	**26**	290	**384**	3,583
	Collections from Company's customers	**5**	322	**401**	1,780
Other related parties	Purchases - net	**282,071**	633,648	**1,316,696**	2,374,473
	Advertisement expenses	**657**	7,550	**1,720**	26,131
	Income on sales volume incentive	-	-	-	8,754
	Expenses charged	**10,548**	16,409	**33,661**	35,760
	Sales commission	-	2,970	**2,113**	11,288
	Supports received	**21,630**	99,635	**165,099**	383,558
	Charges for customer evaluations - prior to lease	**1,955**	2,552	**6,498**	8,004
	Repair services	-	4,257	-	21,515
	Amounts collected on behalf of an affiliate	**6,435**	2,428	**15,771**	12,143
	Purchase of land	-	-	-	12,270

9 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

ii) Due from related parties comprised the following:

	30 September 2018 SR'000 Unaudited	*31 December 2017 SR'000 Audited*	*30 September 2017 SR'000 Unaudited*
Abdul Latif Jameel Import and Distribution Company Limited	**6,789**	28,862	60,450
Abdul Latif Jameel Technology Products Company Limited	**1,683**	-	-
Abdul Latif Jameel United Real Estate Finance Company	**101**	-	-
Abdul Latif Jameel Automotive Wholesale Company Limited	**92**	-	-
Abdul Latif Jameel Summit Company Limited	**5**	195	-
Abdul Latif Jameel Insurance Agency Company	**1**	-	-
Abdul Latif Jameel Retail Company Limited	**-**	-	91,769
United Instalment Sales Company Limited ("Ultimate Parent")	-	393	141
Abdul Latif Jameel Bodywork and Paint Company Limited	-	492	145
Others	-	-	12
	8,671	29,942	152,517

iii) Due to related parties comprised the following:

	30 September 2018 SR'000 Unaudited	*31 December 2017 SR'000 Audited*	*30 September 2017 SR'000 Unaudited*
Abdul Latif Jameel Retail Company Limited (see note below)	**122,579**	52,121	-
Salim Saleh Saeed Babqi Trading Company Limited	**7,902**	17,872	27,336
Abdul Latif Jameel Industrial Equipment Company Limited	**2,216**	-	-
Abdul Latif Jameel Company Limited	**1,795**	1,844	1,808
Abdul Latif Jameel Company for Information and Services Limited	**721**	1,113	849
United Instalment Sales Company Limited ("Ultimate Parent")	**359**	-	-
Abdul Latif Jameel for Outdoor Advertise Company Limited	**174**	113	-
Abdul Latif Jameel Bodywork and Paint Company Limited	**92**	-	-
Abdul Latif Jameel Lands Company Limited	**22**	331	403
Abdul Latif Jameel Automotive Wholesale Company Limited	-	94,882	166,387
Abdul Latif Jameel Technology Products Company Limited	-	5,593	2,954
Abdul Latif Jameel Used Cars Company Limited	-	13	-
Abdul Latif Jameel United Real Estate Finance Company	-	21	-
Abdul Latif Jameel Insurance Agency Company Limited	-	-	-
Others	-	1	331
	135,860	173,904	200,068

9. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

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

	For the three-month period ended 30 September 2018 SR'000 Unaudited	*For the three-month period ended 30 September 2017 SR'000 Unaudited*	***For the nine-month period ended 30 September 2018 SR'000 Unaudited***	*For the nine-month period ended 30 September 2017 SR'000 Unaudited*
Directors' remuneration	**1,019**	1,022	**3,057**	3,032
Short-term employee benefits	**3,000**	3,000	**9,000**	9,000
Employee benefits liabilities	**105**	66	**315**	198
	4,124	4,088	**12,372**	12,230

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

10 CASH AND BANK BALANCES

	30 September 2018 SR '000 Unaudited	*31 December 2017 SR '000 Audited*	*30 September 2017 SR '000 Unaudited*
Cash in hand	**19,318**	22,243	33,869
Bank balances (see note below)	**1,982,349**	2,491,719	2,039,247
Cash and cash equivalents	**2,001,667**	2,513,962	2,073,116
Other deposits (having original maturity of more than three months)	**1,720,804**	1,145,149	1,006,027
Cash and bank balances	**3,722,471**	3,659,111	3,079,143

a) During the nine-month period ended 30 September 2018, the Company earned SR 58.4 million (30 September 2017: SR 26.8 million) on the murabaha deposits at the rate of return ranging from 1.11% to 3.10% (31 December 2017: 0.57% to 2.70%) (30 September 2017: 0.57% to 2.65%).

b) At 30 September 2018, cash and bank balances include murabaha deposits of SR 120.9 million (31 December 2017: SR 149.1 million) (30 September 2017: SR 151.0 million) representing amounts set aside in respect of employees benefits liabilities.

c) Other deposits include foreign currency time deposits held with the local banks of SR 1,161 million (31 December 2017: 1,145 million) (30 September 2017: SR Nil) having original maturity of more than three months.

11 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing the net income for the period attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the period. The calculation of diluted earnings per share is not applicable to the Company.

The basic and diluted earnings per share are calculated as follows:

	For the three-month period ended 30 September 2018 SR'000 Unaudited	*For the three-month period ended 30 September 2017 SR'000 Unaudited (restated)*	***For the nine-month period ended 30 September 2018 SR'000 Unaudited***	*For the nine-month period ended 30 September 2017 SR'000 Unaudited (restated)*
Net income for the period *(in SR '000)*	**90,746**	32,627	**300,286**	145,722
Weighted average number of ordinary shares *(in'000)* (see note 1(a))	**170,000**	170,000	**170,000**	170,000
Basic and diluted earnings per share (SR per share)	**0.53**	0.19	**1.77**	0.86

12 PURCHASE AND AGENCY AGREEMENTS

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

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

During the nine months period ended 30 September 2018, the Company sold SR 2,617 million (30 September 2017: SR 3,810 million) of its net receivables and the total amount received from the bank in respect of such sale was SR 2,764 million (30 September 2017: SR 4,011 million). Upon sale, the Company derecognises the receivables from its books and recognises the difference as either gain or loss on derecognition of receivables (see note c).

The following are the significant terms of the agreement:

a) The Company continues to manage the sold receivables on behalf of the banks for a fee (agency fee). The total settlement of net receivables to be made to the banks (as per the agreed cash flows), as an agent under purchase and agency arrangements amount to SR 10,863 million as of 30 September 2018 (31 December 2017: SR 12,959 million) (30 September 2017: SR 13,457 million).

The maturity analysis of derecognised receivables is as follows:

Under purchase and agency agreements	***Upto 1 year SR'000***	***2 – 3 years SR'000***	***After 3 years SR'000***	***Total SR'000***
30 September 2018 *(Unaudited)*	**5,205,229**	**4,409,648**	**1,248,248**	**10,863,125**
31 December 2017 *(Audited)*	5,950,853	5,993,287	1,015,328	12,959,468
30 September 2017 *(Unaudited)*	6,187,390	6,304,925	964,470	13,456,785

12 PURCHASE AND AGENCY AGREEMENTS (continued)

b) Each agreement is supported by a "cash flow statement" which stipulates the principal amount and the monthly receivables falling due. Under the terms of the agreements, the Company, in the capacity of an agent, settles to the banks a monthly amount based on the cash flow statement. Any excess collections over and above the stipulated amounts and after retaining the amount for the next month's repayment, are transferred monthly by the Company to the banks. The amount of the next month's repayment is recognised as a liability and included in payable under purchase and agency agreements (see note 8).

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

During the nine months period ended 30 September 2018, the Company made gain amounting to SR 158 million (nine months period ended 30 September 2017: 257 million) on derecognition of receivables sold to the banks under the agreements, which is calculated as follows:

	For the three-month period ended 30 September 2018 SR'000 Unaudited	*For the three-month period ended 30 September 2017 SR'000 Unaudited*	***For the nine-month period ended 30 September 2018 SR'000 Unaudited***	*For the nine-month period ended 30 September 2017 SR'000 Unaudited*
Gross amount of receivables	**843,288**	1,612,009	**3,321,673**	4,807,996
Less: deferred finance income	**(181,216)**	(345,511)	**(705,127)**	(997,899)
Less: present value of deferred consideration receivable (see note i)	-	5,243	-	-
(Less)/add: present value of net servicing liability (see note ii)	**(227)**	(22,680)	**(10,796)**	(56,270)
Less: amounts received from the banks	**(703,000)**	(1,333,000)	**(2,764,000)**	(4,011,000)
Net gain on derecognition of receivables	**41,155**	83,939	**158,250**	257,173

During the nine months period ended 30 September 2018, certain purchase and agency agreements, previously entered into by the Company, have matured and the Company has recorded a net gain amounting to SR 76 million (30 September 2017: 46 million) after deducting the actual customer defaults and discounts on premature terminations. The company is in process of obtaining final settlement and discharge letters from the banks with respect to these agreements.

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

	For the three-month period ended 30 September 2018 SR'000 Unaudited	*For the three-month period ended 30 September 2017 SR'000 Unaudited*	***For the nine-month period ended 30 September 2018 SR'000 Unaudited***	*For the nine-month period ended 30 September 2017 SR'000 Unaudited*
Gain on derecognition of receivables	**41,155**	83,939	**158,250**	257,173
Gain on maturity of derecognized pools upon maturity	**29,538**	5,067	**75,862**	46,251
	70,693	89,006	**234,112**	303,424

12 PURCHASE AND AGENCY AGREEMENTS (continued)

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

	30 September 2018 SR'000 Unaudited	*31 December 2017 SR'000 Audited*	*30 September 2017 SR'000 Unaudited*
Present value of deferred consideration receivable	**525,319**	630,331	657,238
Less: provision against expected defaults in respect of sold finance lease and notes receivable	**(525,317)**	(630,299)	(657,181)
	2	32	57
Less: current portion	**(2)**	(32)	(56)
Non-current portion	-	-	1

As on 30 September 2018, for the expired period of the agreed cash flows under the purchase and agency agreement, the Company has made provision for expected defaults and early termination of SR 730.0 million (31 December 2017: SR 773.3 million) (30 September 2017: 940.8 million) (see note 8).

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

	30 September 2018 SR'000 Unaudited	*31 December 2017 SR'000 Audited*	*30 September 2017 SR'000 Unaudited*
Present value of net servicing assets – non-current	**22,814**	45,009	63,650
Present value of net servicing liability	**52,061**	61,169	60,700
Less: current portion (note 8)	**(35,029)**	(39,738)	(43,304)
Non-current portion (disclosed as other non-current liabilities)	**17,032**	21,431	17,396

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

iii. Net change in present value of assets and liabilities relating to derecognized receivables represents the net impact of change in default rate and unwinding of default reserve, net service liability and deferred consideration receivables (as explained in notes 12(c), 12(i) and 12(ii)).

13 FINANCIAL RISK MANAGEMENT

Credit Risk

Credit quality analysis

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

The following tables set out information about the credit quality of financial assets measured at fair value through other comprehensive income as at 30 September 2018. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

a) Gross carrying amounts

	30 September 2018 (Unaudited)			
	12 month ECL SR '000	*Lifetime ECL not credit impaired SR '000*	*Lifetime ECL credit impaired SR '000*	*Total SR '000*
Notes receivable carried at fair value through other comprehensive income	**423,797**	**26,380**	**10,602**	**460,779**

b) Allowance for ECL

	30 September 2018 (Unaudited)			
	12 month ECL SR '000	*Lifetime ECL not credit impaired SR '000*	*Lifetime ECL credit impaired SR '000*	*Total SR '000*
Notes receivable carried at fair value through other comprehensive income	**3,880**	**602**	**11,610**	**16,092**

ii) Financial assets, carried at amortized cost

The following tables set out information about the credit quality of financial assets measured at amortised cost as at 30 September 2018 and 1 January 2018. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

a) Gross carrying amounts

	30 September 2018 (Unaudited)			
	12 month ECL SR '000	*Lifetime ECL not credit impaired SR '000*	*Lifetime ECL credit impaired SR '000*	*Total SR '000*
Net investment in finance lease	1,407,940	52,535	121,664	1,582,139
Notes receivable carried at amortized cost	69,898	1,955	2,725	74,578
Carrying amount	**1,477,838**	**54,490**	**124,389**	**1,656,717**

13 FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Credit quality analysis (continued)

ii) Financial assets carried at amortized cost (continued)

a) Gross carrying amounts (continued)

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

b) Allowance for ECL

	30 September 2018 (Unaudited)			
	12 month ECL SR '000	***Lifetime ECL not credit impaired SR '000***	***Lifetime ECL credit impaired SR '000***	***Total SR '000***
Net investment in finance lease	31,187	10,623	159,692	201,502
Notes receivable, carried at amortized cost	472	37	1,468	1,977
	31,659	**10,660**	**161,160**	**203,479**

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

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

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

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

13 FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Credit quality analysis (continued)

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

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

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

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

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

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

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

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

The Company monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

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

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

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

The Company renegotiates finance lease and notes receivables to customers in financial difficulties (referred to as 'forbearance activities' to maximize collection opportunities and minimize the risk of default. Under the Company's forbearance policy, finance lease and notes receivable forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

13 FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Credit quality analysis (continued)

Credit risk grades (continued)

c) Modified financial assets (continued)
The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of leasing and instalments covenants.

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

- The obligor is past due for 90 days or more on any material credit obligations to the Company including principal instalments, interest payments and fees.
- The Company considers that the obligor is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any).

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

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

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

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

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

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

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

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

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

13 FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Credit risk grades (continued)

g) Governance and controls

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

Capital Management

The Company's capital management objectives are to ensure the Company's ability to continue as a going concern and to provide adequate return to its shareholders through the optimization of the capital structure. The Company manages the capital structure and makes adjustments in the light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

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.

	30 September 2018 Unaudited	*31 December 2017 Audited*
Aggregate financing to capital ratio (Total financing(net investment in finance lease and notes receivable) divided by total shareholders' equity)	**0.42 times**	0.57 times

14 DIVIDEND

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

Further, on 12 April 2018 (corresponding to 26 Rajab 1439H), ALJUF has obtained No Objection letter from Saudi Arabian Monetary Authority (SAMA) for declaration of dividend of SR 1.32 per share amounting to SR 224.3 million. The Shareholders have not yet approved the distribution of the dividend.

15 RESTATEMENT IN THE PRIOR PERIOD FINANCIAL STATEMENTS

During the year ended 31 December 2017, the management of the Company did not record certain transactions relating to insurance arrangements and present value of net servicing assets, having net financial impact of SR 5.31 million. As a result of this error, the net income for the year ended 31 December 2017 was understated by the same amount. The management has corrected the error and accordingly, the opening retained earnings of the Company as at 1 January 2018 have been restated as detailed below:

The effect of restatement is as follows:

Interim condensed statement of comprehensive income	*For the three-month period ended 30 September 2017 SR'000*	*For the nine-months period ended 30 September 2017 SR'000*
Net income for the period		
Net income, as previously reported	22,607	127,183
Adjustment relating to insurance arrangements under 'direct cost'	10,020	18,539
Net income, as restated	32,627	145,722

Interim condensed statement of financial position	*As at 31 December 2017 SR'000*	*As at 30 September 2017 SR'000*
Prepayments and other receivables		
Balance, as previously reported	110,813	485,044
Adjustment relating to insurance arrangements	20,560	18,539
Balance, as restated	131,373	503,583
Other non-current assets		
Balance, as previously reported	64,888	75,515
Adjustment relating to present value of net servicing asset	(8,779)	-
Balance, as restated	56,109	75,515

15 RESTATEMENT IN THE PRIOR PERIOD FINANCIAL STATEMENTS (continued)

	As at 31 December 2017 SR'000	*As at 30 September 2017 SR'000*
Interim condensed statement of financial position		
Present value of net servicing liability – non-current portion		
Balance, as previously reported	16,129	-
Adjustment relating to present value of net servicing liability	5,302	-
Balance, as restated	21,431	-
Present value of net servicing liability - current portion		
Balance, as previously reported	38,569	-
Adjustment relating to present value of net servicing liability	1,169	-
Balance, as restated	39,738	-

	As at 31 December 2017 SR'000	*As at 30 September 2017 SR'000*
Interim condensed statement of financial position		
Retained earnings		
Balance, as previously reported	1,942,050	1,787,915
Adjustment relating to insurance arrangements under 'direct cost'	20,560	18,539
Adjustment relating to present value of net servicing liability under 'net change in present value of assets and liabilities relating to derecognised receivables'	(15,250)	-
Balance, as restated	1,947,360	1,806,454

16 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The following table provides the fair value measurement hierarchy of the Company's financial assets as at 30 September 2018.

30 September 2018		**Fair value measurement using**		
	Total	**Quoted prices in active market (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
	SR'000	***SR'000***	***SR'000***	***SR'000***
Financial assets measured at fair value				
Notes receivable classified as fair value through other comprehensive income	**460,779**	-	-	460,779
Investment classified as fair value through other comprehensive income	**893**	-	-	893

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

There were no transfers between level 1 and level 2 during the nine month period ended 30 September 2018. (31 December 2017: Nil).

17 EVENTS AFTER THE REPORTING PERIOD

Subsequent to the period end, the Company executed a purchase and agency agreement with a local commercial bank in respect of certain finance lease receivables. Under the terms of the purchase and agency agreement, the Company sold the eligible receivables to the bank net of insurance premiums and undertook to manage them on behalf of the bank as an agent for a monthly fee as per the terms of the purchase and agency agreement. The Company sold SR 177.2 million of its net finance lease receivables.

18 RESULTS OF INTERIM PERIOD

The interim condensed financial statements may not be considered indicative of the actual results for the full year.

19 BOARD OF DIRECTORS' APPROVAL

These interim condensed financial statements were approved by the Board of Directors on 23 October 2018 (corresponding to 14 Safar 1440H).