

**BIDAYA HOME FINANCE COMPANY**  
**(A Saudi Closed Joint Stock Company)**  
**FINANCIAL STATEMENTS**  
**For the year ended 31 December 2017**  
together with the  
**INDEPENDENT AUDITORS' REPORT**



**KPMG Al Fozan & Partners**  
**Certified Public Accountants**  
KPMG Tower  
Salahudeen Al Ayoubi Road  
P. O. Box 92876  
Riyadh 11663  
Kingdom of Saudi Arabia

Telephone +966 11 874 8500  
Fax +966 11 874 8600  
Internet [www.kpmg.com/sa](http://www.kpmg.com/sa)

License No. 46/11/323 issued 11/3/1992

## Independent auditors' report

**To the Shareholders of  
Bidaya Home Finance Company  
(A Saudi Closed Joint Stock Company)**

### Opinion

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

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

### Basis for Opinion

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

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

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

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

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

## Auditors' Responsibilities for the Audit of the Financial Statements

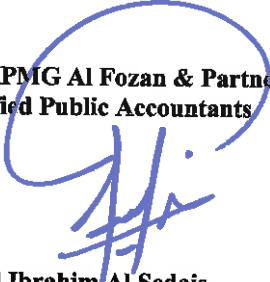
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. 'Reasonable assurance' is a high level of assurance, but is not a guarantee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

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

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

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

For KPMG Al Fozan & Partners  
Certified Public Accountants

  
**Khalil Ibrahim Al Sedais**  
License No: 371



Al Riyadh: 12 Jumada'II 1439H  
Corresponding to: 28 February 2018

**BIDAYA HOME FINANCE COMPANY**  
**(A Saudi Closed Joint Stock Company)**  
**STATEMENT OF FINANCIAL POSITION**  
As at 31 December 2017  
*(Saudi Arabian Riyals in '000)*

| <u>ASSETS</u>                                     | <u>Notes</u> | <u>2017</u>    | <u>2016</u>    |
|---|--------------|----------------|----------------|
| Cash and bank balances                            | 4            | 21,653         | 227,014        |
| Held-for-trading investment                       | 5            | 50,013         | --             |
| Available-for-sale investment                     | 6            | --             | 78,096         |
| Held to maturity investments                      | 7            | --             | 203,547        |
| Ijara receivables, net                            | 8            | 872,814        | 351,150        |
| Deposits, prepayments and other receivables       | 9            | 12,894         | 4,418          |
| Intangible assets, net                            | 10           | 3,060          | 2,333          |
| Property and equipment, net                       | 11           | 6,590          | 7,429          |
| <b>Total assets</b>                               |              | <u>967,024</u> | <u>873,987</u> |
| <br><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>   |              |                |                |
| Short-term borrowing                              | 12           | 100,000        | --             |
| Accrued expenses and other current liabilities    | 13           | 32,959         | 20,261         |
| Accrued Zakat                                     | 14           | 14,181         | 12,168         |
| Provision for employees' end of service benefits  |              | 1,198          | 654            |
| <b>Total liabilities</b>                          |              | <u>148,338</u> | <u>33,083</u>  |
| Share capital                                     | 15           | 900,000        | 900,000        |
| Unrealized gain on available-for-sale investment  | 6            | --             | 2,916          |
| Accumulated losses                                |              | (81,314)       | (62,012)       |
| <b>Shareholders' equity</b>                       |              | <u>818,686</u> | <u>840,904</u> |
| <b>Total liabilities and shareholders' equity</b> |              | <u>967,024</u> | <u>873,987</u> |

The attached notes 1 to 29 form an integral part of these financial statements.

**BIDAYA HOME FINANCE COMPANY**  
(A Saudi Closed Joint Stock Company)  
**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
For the year ended 31 December 2017  
(Saudi Arabian Riyals in '000)

|  | <u>Notes</u> | <b>For the year<br/>ended 31<br/>December<br/>2017</b> | For the period<br>from 31 March<br>2015 to 31<br>December 2016<br>(Restated) |
|--|--------------|--|--|
| <b>REVENUE</b>   |              |  |  |
| Ijara income   |              | 37,681   | 8,752  |
| Fee income   |              | 2,909  | 449  |
| <b>Total revenue</b>   |              | <u>40,590</u>  | <u>9,201</u>   |
| <b>OPERATING EXPENSES</b>                                      |              |  |  |
| General and administrative expenses                            | 16           | 40,400   | 40,401   |
| Selling and marketing expenses                                 | 17           | 17,329   | 11,406   |
| Depreciation   | 11           | 1,244  | 1,324  |
| Amortization   | 10           | 833  | 544  |
| Provision for Ijara receivables losses                         | 8            | 5,282  | 4,445  |
| Finance charges  |              | 68   | --   |
| <b>Total operating expense for the year / period</b>           |              | <u>65,156</u>  | <u>58,120</u>  |
| <b>Operating loss for the year / period</b>                    |              | <u>(24,566)</u>  | <u>(48,919)</u>  |
| Special commission income                                      |              | 447  | 22,175   |
| Realized gain on sale of available-for-sale investments        |              | 6,501  | 108  |
| Unrealised gain on held for trading investment                 | 5            | 13   | --   |
| Other income   |              | 316  | --   |
| Pre-operating expenses   |              | --   | (23,208)   |
| <b>Net loss for the year / period</b>                          |              | <u>(17,289)</u>  | <u>(49,844)</u>  |
| <b><u>OTHER COMPREHENSIVE INCOME</u></b>                       |              |  |  |
| <i>Items that are or may be reclassified to profit or loss</i> |              |  |  |
| Net change in fair value of available-for-sale investment      |              | 3,585  | 2,916  |
| <b>Total comprehensive loss for the year / period</b>          |              | <u>(13,704)</u>  | <u>(46,928)</u>  |
| <b>Loss per share – basic and diluted (in SR)</b>              | 18           | <u>(0.19)</u>  | <u>(0.55)</u>  |

The attached notes 1 to 29 form an integral part of these financial statements.

**BIDAYA HOME FINANCE**  
(A Saudi Closed Joint Stock Company)  
**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
For the year ended 31 December 2017  
(Saudi Arabian Riyals in '000)

|  | <u>Share capital</u> | <u>Unrealized<br/>gain on<br/>available-for-<br/>sale<br/>investment</u> | <u>Accumulated<br/>losses</u> | <u>Total</u>   |
|--|----------------------|--|-------------------------------|----------------|
| <b>For the year ended 31 December 2017</b>                                 |                      |  |                               |                |
| Balance at 31 December 2016  | 900,000              | 2,916  | (62,012)                      | 840,904        |
| Net loss for the year  | --                   | --   | (17,289)                      | (17,289)       |
| Zakat charge for the year (note 14)  | --                   | --   | (2,013)                       | (2,013)        |
| Fair value of available-for-sale investments transferred to profit or loss | --                   | (6,501)  | --                            | (6,501)        |
| Change in fair value of available-for-sale investments                     | --                   | 3,585  | --                            | 3,585          |
| Total comprehensive loss for the year                                      | --                   | (2,916)  | (19,302)                      | (22,218)       |
| <b>Balance at 31 December 2017</b>   | <b>900,000</b>       | <b>--</b>  | <b>(81,314)</b>               | <b>818,686</b> |
| <b>For the period ended from 31 March 2015 to 31 December 2016</b>         |                      |  |                               |                |
| Issuance of share capital  | 900,000              | --   | --                            | 900,000        |
| Net loss for the period (restated)   | --                   | --   | (49,844)                      | (49,844)       |
| Zakat (note 14 and 27) (restated)  | --                   | --   | (12,168)                      | (12,168)       |
| Change in fair value of available-for-sale investments                     | --                   | 2,916  | --                            | 2,916          |
| Total comprehensive loss for the period                                    | --                   | 2,916  | (62,012)                      | (59,096)       |
| Balance at 31 December 2016  | 900,000              | 2,916  | (62,012)                      | 840,904        |

The attached notes 1 to 29 form an integral part of these financial statements.

**BIDAYA HOME FINANCE COMPANY**  
(A Saudi Closed Joint Stock Company)  
**STATEMENT OF CASH FLOWS**  
For the year ended 31 December 2017  
(Saudi Arabian Riyals in '000)

|  | <u>Notes</u> | <b>For the<br/>year ended<br/>31<br/>December<br/>2017</b> | <b>For the<br/>period from<br/>31 March<br/>2015 to 31<br/>December<br/>2016</b> |
|--|--------------|--|--|
| <b>Cash flows from operating activities:</b>   |              |  |  |
| Net loss for the year / period   |              | (17,289)   | (49,844)   |
| <i>Non-cash adjustments to reconcile net loss for the year / period<br/>before Zakat to net cash used in operating activities:</i> |              |  |  |
| Depreciation   | 11           | 1,244  | 1,324  |
| Amortization   | 10           | 833  | 544  |
| Loss on disposal of property and equipment   |              | -  | 34   |
| Provision for employees' end of service benefits   |              | 544  | 654  |
| Provision for Ijara receivable losses  | 8            | 5,282  | 4,445  |
| Unrealised gain on held for trading investment   | 5            | (13)   | --   |
| Realized gain on sale of available-for-sale investments  |              | (6,501)  | (108)  |
|  |              | <u>(15,900)</u>  | <u>(42,951)</u>  |
| <i>Increase in operating assets:</i>   |              |  |  |
| Ijara receivables  |              | (526,946)  | (355,595)  |
| Deposits, prepayments and other receivables  |              | (8,476)  | (4,418)  |
| <i>Increase in operating liabilities:</i>  |              |  |  |
| Accrued expenses and other current liabilities   |              | 12,698   | 20,261   |
| <b>Net cash used in operating activities</b>   |              | <u>(538,624)</u>   | <u>(382,703)</u>   |
| <b>Cash flows from investing activities</b>  |              |  |  |
| Purchase of property and equipment   | 11           | (405)  | (8,790)  |
| Proceeds from disposal of property and equipment   |              | --   | 3  |
| Purchase of intangible assets  | 10           | (1,560)  | (2,877)  |
| Purchase of held to maturity investments   |              | --   | 14,665,564   |
| Proceeds from disposal of held to maturity investments   |              | --   | (14,665,564)   |
| Purchase of held for trading investment  |              | (50,000)   | --   |
| Purchase of available-for-sale investment  |              | (378,300)  | (200,180)  |
| Proceeds from disposal of available-for-sale investment  |              | 459,981  | 125,108  |
| <b>Net cash generated from / (used in) investing activities</b>  |              | <u>29,716</u>  | <u>(86,736)</u>  |
| <b>Cash flows from financing activities</b>  |              |  |  |
| Proceeds from short-term borrowing   |              | 100,000  | --   |
| Proceeds from issuance of share capital  |              | --   | 900,000  |
| <b>Net cash generated from financing activities</b>  |              | <u>100,000</u>   | <u>900,000</u>   |
| <b>Net (decrease) / increase in cash and cash equivalents</b>  |              |  |  |
| Cash and cash equivalents at beginning of the year / period  |              | (408,908)  | 430,561  |
| <b>Cash and cash equivalents at end of the year / period</b>   | 19           | <u>430,561</u><br><u>21,653</u>                            | <u>--</u><br><u>430,561</u>  |
| <b>Non-cash supplemental information:</b>  |              |  |  |
| Available-for-sale investment- net change in fair value  |              | (2,916)  | 2,916  |
| Unrelaized gain on held for trading investments  |              | 13   | --   |

The attached notes 1 to 29 form an integral part of these financial statements.

**BIDAYA HOME FINANCE COMPANY**  
(A Saudi Closed Joint Stock Company)  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2017

**1. THE COMPANY AND THE NATURE OF OPERATIONS**

Bidaya Home Finance Company (the "Company") is a Saudi closed joint stock company established under the Regulations for Companies in the Kingdom of Saudi Arabia. The Company operates under Commercial Registration No. 1010432564 issued in Riyadh on 25 Jumada II 1436H (corresponding to 14 April 2015). The Company was granted a full license by Saudi Arabian Monetary Authority ("SAMA") to operate as a mortgage finance company vide license number 41/ش.ع/201512 dated 3 Rabi I 1437H (corresponding to 14 December 2015).

The objectives of the Company are to provide home financing to consumers for the purchase of homes (new homes, ready homes and off plan construction homes) and providing finance to home owners against security of their homes.

The registered office of the Company with its postal address is as follows:

Bidaya Home Finance Company  
20<sup>th</sup> Floor of Ibdeh Tower  
King Fahad Road  
P.O. Box 93898  
Riyadh 11683  
Kingdom of Saudi Arabia

**2. BASIS OF PREPARATION**

**a) *Statement of compliance***

The financial statements of the Company have been prepared;

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

Until 31 December 2016, the financial statements of the Company were prepared in accordance with the International Financial Reporting Standards ("IFRS"). This change in framework resulted in a change in accounting policy for zakat and the effects of this change are disclosed in note 27 to the financial statements.

This is the second financial reporting year of the Company. The first financial reporting period was from the date of Ministerial Resolution announcing the incorporation of the Company i.e. 11 Jumada II 1436H (corresponding to 31 March 2015) and ended on 31 December 2016. Accordingly, the period to date comparatives in these financial statements are presented for the period from 31 March 2015 to 31 December 2016.



**BIDAYA HOME FINANCE COMPANY**  
(A Saudi Closed Joint Stock Company)  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2017

**2. BASIS OF PREPARATION (CONTINUED)**

**b) *Basis of measurement***

These financial statements have been prepared under the historical cost convention modified to include the measurement at fair value of available-for-sale and held-for-trading investment.

**c) *Functional and presentation currency***

These financial statements are presented in Saudi Arabian Riyals ("SR"), which is the Company's functional currency. Except as indicated, the financial information presented in SR has been rounded-off to the nearest thousand.

**d) *Order of liquidity***

Assets and liabilities in the statement of financial position are presented in the order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in note 22.

**e) *Critical accounting judgements, estimates and assumptions***

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Such judgements, estimates, and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. Significant areas where management has used judgements, estimates and assumptions are as follows:

**i. *Impairment of financial assets***

The Company exercises judgement to consider at each reporting date whether there is an objective evidence of impairment on any financial assets or a group of financial assets. This objective evidence of impairment is based on the results of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated.

Impairment losses on available-for-sale investments are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost less any impairment loss previously recognized in the statement of profit or loss.

Impairment losses on held to maturity investments are measured as the difference between carrying cost and the present value of estimated future cash flows. Impairment losses are recognised in the statement of profit or loss as impairment loss on held to maturity investments. If the amount of impairment loss is subsequently decreased and the decrease can be related objectively to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through the statement of profit or loss.

Evidence for impairment of Ijara receivables may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default or delinquency in profit or principal payments.

The Company reviews its Ijara receivables to assess specific and collective impairment on a quarterly basis. In determining whether an impairment loss should be recorded, the Company uses objective evidence and estimates in making judgements as to impairment in determining whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. This evidence may include observable data indicating that there has been an

**BIDAYA HOME FINANCE COMPANY**  
(A Saudi Closed Joint Stock Company)  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2017

**2. BASIS OF PREPARATION (CONTINUED)**

*e) Critical accounting judgements, estimates and assumptions (continued)*

*i. Impairment of financial assets (continued)*

adverse change in the payment status of the counter-party. Impairment allowance for credit losses is based on management assessment as to whether there is objective evidence that a financial asset may be impaired. If such evidence exists, the estimated recoverable amount is determined and any impairment loss is recognised in the statement of profit or loss.

*ii. Fair value measurement*

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

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

The principal or the most advantageous market must be accessible to by the Company. The fair value of an asset or a liability is measured using assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. The fair value of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3 — inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

At each reporting date, management of the Company analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Company's accounting policies. For this analysis, the management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities based on the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

**BIDAYA HOME FINANCE COMPANY**  
(A Saudi Closed Joint Stock Company)  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2017

**2. BASIS OF PREPARATION (CONTINUED)**

***e) Critical accounting judgements, estimates and assumptions (continued)***

***iii. 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 its business for the foreseeable future. Additionally, 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, these financial statements have been prepared on a going concern basis.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies mentioned have been applied consistently for the period presented except for:

**a) Change in accounting policy in relation to accounting for zakat:**

Effective 1 January 2017, the Company amended its accounting policy relating to zakat and has started to recognize zakat charge to retained earnings. Previously, zakat was charged to the statement of profit or loss. The Company has accounted for this change in the accounting policy relating to zakat retrospectively and the effects of the above change are disclosed in note 27 to the financial statements.

**b) Adoption of the following amendment to existing standards, which have had no significant impact on these financial statements:**

- Amendments to IAS 7 – "Statement of Cash Flows", under the IASB's "Disclosure Initiative" applicable from 1 January 2017. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash change.

**a) *Cash and cash equivalents***

For the purpose of the cash flow statement, cash in hand, bank balances and held to maturity investments that have an original maturity of three months or less.

**b) *Held to maturity investments***

Held to maturity investments are non-derivative assets having fixed or determinable payments and fixed maturity that the management has the positive intention and ability to hold to maturity.

Held to maturity investments are carried at amortized cost using effective profit rate method less any impairment losses. Any gain or loss on such investments is recognized in the statement of profit or loss when the investment is derecognized or impaired.

**c) *Available-for-sale investments***

Available-for-sale investments' are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Fair value changes, other than impairment losses are recognised in the statement of other comprehensive income and presented in the unrealised gain / loss on available-for-sale investments within equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to the statement of profit or loss.

**BIDAYA HOME FINANCE COMPANY**  
(A Saudi Closed Joint Stock Company)  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2017

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**d) *Ijara receivables***

Ijara receivables represent assets transferred under finance lease under Islamic lease agreement and the present value of the lease payments is recognised as a receivable and disclosed under "Ijara receivables". The difference between the gross receivables and the present value of the receivables is recognised as unearned Ijara income. Ijara income is recognised over the term of the Ijara using the net investment method, which reflects a constant periodic rate of return.

**e) *Property and equipment***

Property and equipment are stated at cost less accumulated depreciation and any impairment in value. The cost less estimated residual value of property and equipment is depreciated on a straight-line basis over the estimated useful lives of the assets. The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use. Expenditure for repair and maintenance are charged to the statement of profit or loss. Improvements that increase the value or materially extend the life of the related assets are capitalized.

The estimated useful lives of the principal classes of assets are as follows:

|                        | <u>Years</u>                      |
|------------------------|-----------------------------------|
| Leasehold Improvements | Shorter of 10 years or lease term |
| Office equipment       | 5                                 |
| Furniture and fixture  | 6                                 |
| Computer equipment     | 5                                 |
| Vehicles               | 5                                 |

**f) *Intangible assets***

Intangibles assets are initially recognised at cost less accumulated amortization and impairment losses, if any. Costs that are directly associated with identifiable software product controlled by the Company and have probable economic benefits beyond one year are recognised as intangible asset. Costs associated with maintaining computer software are recognised as an expense as and when incurred.

Amortisation is charged to the statement of profit and loss account by applying the straight line basis whereby the carrying amount of an asset is amortised over its estimated useful life to the Company unless such life is indefinite. The estimated useful life of intangible assets (computer software) is 5 years.

The Company accounts for impairment, where indications exist, by reducing asset's carrying amount to the recoverable amount.

**g) *Accounts payable and accruals***

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

**h) *Provisions***

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

**BIDAYA HOME FINANCE COMPANY**  
(A Saudi Closed Joint Stock Company)  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2017

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**i) *Impairment of financial assets***

A financial asset or group of financial assets is classified as impaired when there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset or a group of financial assets and that a loss event(s) has an impact on the future cash flows of the financial asset or a group of financial assets that can be estimated reliably.

Objective evidence that financial assets are impaired includes:

- significant financial difficulty of the borrower;
- default or delinquency by a borrower;
- the restructuring of a Ijara receivables by the Company on terms that the Company would not consider otherwise;
- indications that a borrower will enter bankruptcy;
- observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a financial asset or a group of financial assets may be impaired at the statement of financial position date. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised for changes in its carrying amounts.

Once a financial asset has been written down to its estimated recoverable amount, Ijara income is thereafter recognised based on the rate of Ijara income that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. In general, the Company considers a decline of 20% to be 'significant' and a period of nine months to be 'prolonged'. However, in specific circumstances a smaller decline or a shorter period may be appropriate.

When a financial asset is uncollectible, it is written off against the related provision for impairment either directly by a charge to statement of profit or loss or through provision for impairment account. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted, and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of profit or loss in impairment charge for credit losses.

**j) *Financial liability***

The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value and in the case of loans and borrowings, net of directly attributable transaction costs. The Company's financial liabilities include short-term borrowings and accrued expenses and other current liabilities. Gains and losses are recognized in the statement of profit or loss when the liabilities are derecognized.

**BIDAYA HOME FINANCE COMPANY**  
(A Saudi Closed Joint Stock Company)  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2017  
(Saudi Arabian Riyals in '000)

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**j) *Financial liability (continued)***

***Subsequent measurement***

The measurement of financial liabilities depend on their classification as financial liabilities at fair value through profit or loss or "other financial liabilities".

The Company has not designated any financial liability at fair value through profit or loss.

***Other financial liabilities***

Other financial liabilities (including short-term borrowing and accrued expenses and other current liabilities) are subsequently measured at amortised cost using effective profit rate method.

Transaction cost relating to loans and borrowings are amortised over the period of agreement using the effective yied method.

**k) *Derecognition of financial instruments***

A financial asset (or a part of a financial asset, or a part of a group of similar financial assets) is derecognised, when the contractual rights to receive the cash flows from the financial asset expires. In instances where the Company is assessed to have transferred a financial asset, the asset is derecognised if the Company has transferred substantially all the risks and rewards of ownership. Where the Company has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognised only if the Company has not retained control of the financial asset. The Company recognises separately as assets or liabilities any rights and obligations created or retained in the process.

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

**l) *Offsetting of financial instruments***

Financial assets and liabilities are offset and reported net in the statement of financial position when the entity has a legal currently enforceable right to set off the recognised amounts and when the Company intends to settle on a net basis, or to realise the asset and settle the liability simultaneously. Income and expenses are not offset in the statement of profit or loss unless required or permitted by an accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Company.

**m) *Employees end of service benefits***

Provision is made for amounts payable under the Saudi Arabian Labour Law applicable to employees' accumulated service at the statement of financial position date. The liability is calculated as the current value of the vested benefits to which the employee is entitled, should the employee leave at the statement of financial position date.

**n) *Revenue recognition***

Income on held to maturity investments is recognised in the statement of profit or loss on an effective yield basis on the amount of investment. Income on Ijara receivables is recognised in the statement of profit or loss on an effective yield basis over the life of the underlying transaction.

Appraisal fee for services rendered are recognised when the service is provided. Management fees and commission fees earned for Ijara receivables are recognised as an adjustment to the effective profit rate on these receivables. When it is unlikely that receivables will continue to be held by the Company, such fees are recognised in the statement of profit or loss in the period in which the receivables no longer continue to exist in the financial statements.

**BIDAYA HOME FINANCE COMPANY**  
(A Saudi Closed Joint Stock Company)  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2017  
(Saudi Arabian Riyals in '000)

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***o) Expenses***

Selling and marketing expenses are those that specifically relate to sales and marketing. All other expenses are classified as general and administration expenses.

***p) Operating leases***

Operating lease payments are recognised as expenses in the statement of profit or loss on a straight-line method basis over the lease contract period.

***q) Foreign currencies***

Transactions denominated in foreign currencies are recorded in Saudi Riyals at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the statement of profit or loss. Gains or losses on foreign currency transactions are included in the statement of profit or loss during the year / period.

***r) Zakat***

The Company's Saudi shareholders are subject to Zakat in accordance with the Saudi Zakat Law. Zakat, is the liability of the Company and is charged to the retained earnings / accumulated losses instead of the statement of comprehensive income on a quarterly basis.

***s) Statutory reserve***

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

**4. CASH AND BANK BALANCES**

|                                 |               |                |
|---------------------------------|---------------|----------------|
|                                 | <u>2017</u>   | <u>2016</u>    |
| Cash in hand                    | 10            | 10             |
| Cash at bank – current accounts | <u>21,643</u> | <u>227,004</u> |
|                                 | <u>21,653</u> | <u>227,014</u> |

**5. HELD-FOR-TRADING INVESTMENT**

This represents investment in Riyad Commodity Trading Fund (SR), a fund managed by Riyad Capital.

|                                   | <u>Cost</u>   | <u>Unrealized gain</u> | <u>Fair value as at 31 December 2017</u> | <u>Fair value as at 31 December 2016</u> |
|-----------------------------------|---------------|------------------------|--|--|
| Riyad Commodity Trading Fund (SR) | <u>50,000</u> | <u>13</u>              | <u>50,013</u>                            | <u>--</u>                                |

**BIDAYA HOME FINANCE COMPANY**  
(A Saudi Closed Joint Stock Company)  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2017  
(Saudi Arabian Riyals in '000)

**6. AVAILABLE-FOR-SALE INVESTMENTS**

|  | 31 December 2017   |        |                    |            |
|--|--------------------|--------|--------------------|------------|
|  | Number of<br>units | Cost   | Unrealized<br>gain | Fair value |
| <i>Close-ended fund:</i>                                 |                    |        |                    |            |
| Islamic Corporation for Development<br>Money Market Fund | --                 | --     | --                 | --         |
| 31 December 2016   |                    |        |                    |            |
| <i>Close-ended fund:</i>                                 |                    |        |                    |            |
| Islamic Corporation for Development<br>Money Market Fund | 2,000,000          | 75,180 | 2,916              | 78,096     |

**7. HELD TO MATURITY INVESTMENTS**

Held to maturity investments represent term-deposits placed with banks operating within the Kingdom of Saudi Arabia and have an original maturity period of upto three months:

|                         | 31 December<br>2017 | 31 December<br>2016 |
|-------------------------|---------------------|---------------------|
| Alinma Bank             | --                  | 151,251             |
| Gulf International Bank | --                  | 52,296              |
|                         | --                  | 203,547             |

As at 31 December 2017, the carrying value of above held to maturity investments include accrued special commission income amounted to SR Nil (31 December 2016: SR 1.547 million). During the year ended 31 December 2017, special commission income on held to maturity investments amounted to SR 0.447 million (for the period from 31 March 2015 to 31 December 2016: SR 22.1 million) has been recognised in the statement of profit or loss.

**8. IJARA RECEIVABLES, NET**

|  | <i>Note</i> | 2017           | 2016           |
|--|-------------|----------------|----------------|
| Gross Ijara receivables                      |             | 1,505,007      | 590,645        |
| Less: Unearned income                        |             | (622,466)      | (235,050)      |
|  | 8.1         | 882,541        | 355,595        |
| Less: Impairment allowance for credit losses | 8.3         | (9,727)        | (4,445)        |
| <b>Ijara receivables, net</b>                |             | <b>872,814</b> | <b>351,150</b> |

**8.1** The credit quality of Ijara receivables is as follows:

|                               | 31 December<br>2017 | 31 December<br>2016 |
|-------------------------------|---------------------|---------------------|
| Neither past due nor impaired | 807,809             | 181,814             |
| Past due but not impaired     | 54,338              | 173,781             |
| Impaired                      | 20,394              | --                  |
|                               | 882,541             | 355,595             |



**BIDAYA HOME FINANCE COMPANY**  
(A Saudi Closed Joint Stock Company)  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2017  
(Saudi Arabian Riyals in '000)

**8. IJARA RECEIVABLES, NET (continued)**

Ageing of past due but not impaired installments and the related balances of Ijara receivables are as follows:

|              | <u>31 December 2017</u>  |                             | <u>31 December 2016</u>  |                             |
|--------------|--------------------------|-----------------------------|--------------------------|-----------------------------|
|              | <u>Ijara receivables</u> | <u>Past due instalments</u> | <u>Ijara receivables</u> | <u>Past due instalments</u> |
| 01 – 30 days | 29,240                   | 207                         | 108,645                  | 807                         |
| 31 – 60 days | 17,238                   | 338                         | 50,680                   | 740                         |
| 61 – 90 days | 7,860                    | 159                         | 14,456                   | 478                         |
| <b>Total</b> | <b>54,338</b>            | <b>704</b>                  | <b>173,781</b>           | <b>2,025</b>                |

**8.2** The fair value of collateral, based on the appraisal at the time of origination of the financial assets, held by Company by each category are as follows:

|                   | <u>2017</u>      | <u>2016</u>    |
|-------------------|------------------|----------------|
| Current           | 1,037,386        | 228,509        |
| 01 – 30 days      | 36,219           | 133,252        |
| 31 – 60 days      | 21,272           | 62,268         |
| 61 – 90 days      | 9,360            | 17,798         |
| More than 90 days | 24,388           | --             |
|                   | <u>1,128,625</u> | <u>441,827</u> |

These Ijara receivables are secured against mortgage of financed properties with an aggregate fair value of SR 1.128 billion on the date of financing. Valuation technique used to determine the fair value of collateral included a combination of the cost and market approach and is done by independent external evaluators on the approved panel of the Company.

Title deed of real estate properties financed by the Company are registered in the name of the appointed trustees under a Trusteeship agreement, as the Company's By-laws were silent with respect to the title holder of those real estate properties. During the year, the Company's By-laws were amended and the Company is in the process of transferring the real estate properties in the name of the Company.

**8.3** The movement in the impairment allowance for credit losses for the year / period ended 31 December 2017 is as follows:

|                              | <u>2017</u>  | <u>2016</u>  |
|------------------------------|--------------|--------------|
| Balance as at 01 January     | 4,445        | -            |
| Charge for the year / period | 5,282        | 4,445        |
| Balance as at 31 December    | <u>9,727</u> | <u>4,445</u> |

Impairment allowance for credit losses include specific provision amounting to SR 1.1 million (31 December 2016: SR Nil)

**8.4** The table below stratifies credit exposures from Ijara receivables into ranges of receivables to value ratio. Ijara receivables to value ratio is calculated by dividing the gross amount of the financing to fair value of the underlying property. The gross amount of financing used in calculating this ratio excludes unearned income and any impairment allowance.

**BIDAYA HOME FINANCE COMPANY**  
(A Saudi Closed Joint Stock Company)  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2017  
(Saudi Arabian Riyals in '000)

**8. IJARA RECEIVABLES, NET (continued)**

|                       | <b>31 December</b> | 31 December    |
|-----------------------|--------------------|----------------|
|                       | <b>2017</b>        | 2016           |
| Less than 50%         | <b>11,605</b>      | 1,971          |
| 51 - 70%              | <b>55,151</b>      | 26,677         |
| 71 - 85%              | <b>815,308</b>     | 326,947        |
| 86 - 90%              | <b>477</b>         | --             |
| <b>Total Exposure</b> | <b>882,541</b>     | <b>355,595</b> |

8.5 The credit exposure from Ijara receivables is classified as under:

|   | <b>Not later than one year</b> | <b>Later than one year but not later than five years</b> | <b>Later than five years</b> | <b>Total</b>   |
|---|--------------------------------|--|------------------------------|----------------|
| <b>31 December 2017</b>                       |                                |  |                              |                |
| Ijara receivables                             | 88,683                         | 265,883  | 1,150,441                    | 1,505,007      |
| Unearned income                               | (53,866)                       | (146,405)  | (422,195)                    | (622,466)      |
|   | <b>34,817</b>                  | <b>119,478</b>   | <b>728,246</b>               | <b>882,541</b> |
| <b>Impairment allowance for credit losses</b> |                                |  |                              | <b>(9,727)</b> |
|   |                                |  |                              | <b>872,814</b> |
| <b>31 December 2016</b>                       |                                |  |                              |                |
| Ijara receivables                             | 35,079                         | 103,308  | 452,258                      | 590,645        |
| Unearned income                               | (20,506)                       | (56,253)   | (158,291)                    | (235,050)      |
|   | <b>14,573</b>                  | <b>47,055</b>  | <b>293,967</b>               | <b>355,595</b> |
| <b>Impairment allowance for credit losses</b> |                                |  |                              | <b>(4,445)</b> |
|   |                                |  |                              | <b>351,150</b> |

The Company's implicit rate of return on leases ranges from 4.84% to 12% (31 December 2016: 4.84% and 10.58%). Duration of Ijara receivable ranges from five to thirty years.

**9. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES**

|                                 | <b>Notes</b> | <b>2017</b>   | <b>2016</b>  |
|---------------------------------|--------------|---------------|--------------|
| Deposits                        |              | 220           | 213          |
| Prepayments                     |              | 1,035         | 1,359        |
| Prepaid borrowing facility fees | 9.1          | 1,500         | --           |
| Advance for investment          | 9.2          | 893           | --           |
| Accrued Ijara income            |              | 6,599         | 2,771        |
| Other receivables               |              | 2,647         | 75           |
|                                 |              | <b>12,894</b> | <b>4,418</b> |

9.1 This represents the facility fees paid for the acquisition of borrowing and will be amortised over the term of the borrowing. As at 31 December 2017, the facility has not been utilized.

9.2 This represents the advance for investment in Saudi Finance Lease Registry Company.

**BIDAYA HOME FINANCE COMPANY**  
(A Saudi Closed Joint Stock Company)  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2017  
(Saudi Arabian Riyals in '000)

**10. INTANGIBLE ASSETS, NET**

|                                    | <b>For the year<br/>ended 31<br/>December<br/><u>2017</u></b> | <b>For the<br/>period<br/>from 31<br/>March<br/>2015 to<br/>31<br/>December<br/><u>2016</u></b> |
|------------------------------------|---|---|
|                                    | <u><b>Computer Software</b></u>                               |   |
| <b>Cost:</b>                       |   |   |
| Opening balance                    | <b>2,877</b>  | --  |
| Additions during the year / period | <b>1,560</b>  | 2,877   |
| Closing balance                    | <u><b>4,437</b></u>   | <u>2,877</u>  |
| <b>Amortization:</b>               |   |   |
| Opening balance                    | <b>544</b>  | --  |
| Charge for the year / period       | <b>833</b>  | 544   |
| Closing balance                    | <u><b>1,377</b></u>   | <u>544</u>  |
| Net book value as at 31 December   | <u><b>3,060</b></u>   | <u>2,333</u>  |

**BIDAYA HOME FINANCE COMPANY**  
(A Saudi Closed Joint Stock Company)  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2017  
(Saudi Arabian Riyals in '000)

**11. PROPERTY AND EQUIPMENT, NET**

|                                       | For the year ended 31 December 2017 |                             |                                   |                               |                 |              |
|---------------------------------------|-------------------------------------|-----------------------------|-----------------------------------|-------------------------------|-----------------|--------------|
|                                       | <u>Leasehold<br/>improvement</u>    | <u>Office<br/>equipment</u> | <u>Furniture and<br/>fixtures</u> | <u>Computer<br/>equipment</u> | <u>Vehicles</u> | <u>Total</u> |
| <b>Cost:</b>                          |                                     |                             |                                   |                               |                 |              |
| As at 1 January 2017                  | 4,141                               | 114                         | 764                               | 3,335                         | 395             | 8,749        |
| Additions                             | --                                  | 87                          | 22                                | 296                           | --              | 405          |
| As at 31 December 2017                | 4,141                               | 201                         | 786                               | 3,631                         | 395             | 9,154        |
| <b>Accumulated depreciation:</b>      |                                     |                             |                                   |                               |                 |              |
| As at 1 January 2017                  | 235                                 | 15                          | 86                                | 905                           | 79              | 1,320        |
| Charge for the year                   | 316                                 | 35                          | 122                               | 692                           | 79              | 1,244        |
| As at 31 December 2017                | 551                                 | 50                          | 208                               | 1,597                         | 158             | 2,564        |
| Net book value as at 31 December 2017 | 3,590                               | 151                         | 578                               | 2,034                         | 237             | 6,590        |

|                                       | For the period from 31 March 2015 to 31 December 2016 |                             |                                   |                               |                 |              |
|---------------------------------------|---|-----------------------------|-----------------------------------|-------------------------------|-----------------|--------------|
|                                       | <u>Leasehold<br/>improvement</u>                      | <u>Office<br/>equipment</u> | <u>Furniture and<br/>fixtures</u> | <u>Computer<br/>equipment</u> | <u>Vehicles</u> | <u>Total</u> |
| <b>Cost:</b>                          |   |                             |                                   |                               |                 |              |
| Additions                             | 4,141   | 114                         | 805                               | 3,335                         | 395             | 8,790        |
| Disposals                             | --  | --                          | (41)                              | --                            | --              | (41)         |
| As at 31 December 2016                | 4,141   | 114                         | 764                               | 3,335                         | 395             | 8,749        |
| <b>Accumulated depreciation:</b>      |   |                             |                                   |                               |                 |              |
| Charge for the period                 | 235   | 15                          | 90                                | 905                           | 79              | 1,324        |
| Disposals                             | --  | --                          | (4)                               | --                            | --              | (4)          |
| As at 31 December 2016                | 235   | 15                          | 86                                | 905                           | 79              | 1,320        |
| Net book value as at 31 December 2016 | 3,906   | 99                          | 678                               | 2,430                         | 316             | 7,429        |

**BIDAYA HOME FINANCE COMPANY**  
(A Saudi Closed Joint Stock Company)  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2017  
(Saudi Arabian Riyals in '000')

**12. SHORT-TERM BORROWING**

This short-term borrowing is obtained from Saudi Real Estate Refinance Company and is secured by the assignment of proceeds from certain Ijara receivables and pledge of title deeds of underlying real estate assets. The borrowing carry markup at commercial market rates and is repayable during 2018.

**13. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

|  | <u>Notes</u> | <u>2017</u>   | <u>2016</u>   |
|--|--------------|---------------|---------------|
| Accounts payables                            |              | 6,225         | 5,486         |
| Down payment against Ijara financing         | 13.1         | 3,089         | 8,183         |
| Accrued expenses                             |              | 7,924         | 5,174         |
| Directors' remuneration and meeting expenses |              | 1,988         | --            |
| Deferred management fee                      |              | 1,915         | 1,036         |
| Deferred commission income                   |              | 11,507        | --            |
| Salaries and employee related benefits       |              | 311           | 382           |
|  |              | <u>32,959</u> | <u>20,261</u> |

13.1 This pertains to down payment received by the Company against Ijara financing not executed as at the statement of financial position date.

**14. ZAKAT**

The significant components of the Company's Zakat base for the year / period ended 31 December comprise of the following:

|  | <u>2017</u> | <u>2016</u> |
|--|-------------|-------------|
| Share capital  | 900,000     | 900,000     |
| Adjusted net loss for the year / period                      | 7,284       | 65,980      |
| Written down value of property and equipment and intangibles | 9,175       | 9,468       |
| Accumulated Zakat losses                                     | 49,844      | --          |
| Ijara receivables  | 742,068     | 337,815     |
| Zakat base   | 80,518      | 486,737     |
| Zakat charge for the year / period                           | 2,013       | 12,168      |

**Status of Assessment**

Subsequent to the year ended 31 December 2017, the company has filed its first zakat declaration for the period up to 31 December 2016 and acknowledgement certificate has been obtained. The Company is in the process of submitting its Zakat declaration with GAZT for the year 31 December 2017.

**BIDAYA HOME FINANCE COMPANY**  
(A Saudi Closed Joint Stock Company)  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2017  
(Saudi Arabian Riyals in '000)

**15. SHARE CAPITAL**

As at 31 December 2017, the authorised, issued and fully paid-up share capital of the Company was SR 900 million (31 December 2016: SR 900 million) divided into 90 million shares with a nominal value of SR 10 each, which is owned by the shareholders as follows:

| <u>Name of shareholders</u>         | <u>Number of shares</u><br><u>000's</u> | <u>Holding percentage</u><br><u>(%)</u> | <u>Amount</u><br><u>SR'000</u> |
|-------------------------------------|---|---|--------------------------------|
| Public Investment Fund ("PIF")      | 20,000                                  | 22.2                                    | 200,000                        |
| Islamic Corporation for Development | 18,000                                  | 20.0                                    | 180,000                        |
| Rashed Al Rashed and Sons           | 15,300                                  | 17.0                                    | 153,000                        |
| Mohammad Yousef Naghi Motors        | 10,000                                  | 11.1                                    | 100,000                        |
| Arab Investment Company             | 10,000                                  | 11.1                                    | 100,000                        |
| Al Othaim Holding                   | 10,000                                  | 11.1                                    | 100,000                        |
| Al Khereji Investments              | 3,200                                   | 3.6                                     | 32,000                         |
| Manfea Holding Company              | 2,000                                   | 2.2                                     | 20,000                         |
| Jawahir Investment Company          | 1,500                                   | 1.7                                     | 15,000                         |
|                                     | <b>90,000</b>                           | <b>100</b>                              | <b>900,000</b>                 |

**16. GENERAL AND ADMINISTRATIVE EXPENSES**

|  | <u>For the year ended 31 December 2017</u> | <u>For the period from 31 March 2015 to 31 December 2016</u> |
|--|--|--|
| Salaries and employee related benefits       | 22,895                                     | 23,308   |
| Professional fees                            | 4,566                                      | 6,514  |
| Directors' remuneration and meeting expenses | 3,955                                      | --   |
| IT expenses                                  | 2,233                                      | 3,510  |
| Rent and premises related expenses           | 2,743                                      | 3,056  |
| Other expenses                               | 4,008                                      | 4,013  |
|  | <b>40,400</b>                              | <b>40,401</b>  |

**17. SELLING AND MARKETING EXPENSES**

|   | <u>For the year ended 31 December 2017</u> | <u>For the period from 31 March 2015 to 31 December 2016</u> |
|---|--|--|
| Advertising and marketing expense       | 6,137                                      | 6,347  |
| Salaries and employee related expenses  | 8,522                                      | 4,010  |
| Lease property evaluation and insurance | 2,670                                      | 1,049  |
|   | <b>17,329</b>                              | <b>11,406</b>  |

**BIDAYA HOME FINANCE COMPANY**  
(A Saudi Closed Joint Stock Company)  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2017  
(Saudi Arabian Riyals in '000)

**18. LOSS PER SHARE – BASIC & DILUTED**

Loss per share is calculated by dividing net loss for the year / period by the weighted average number of shares (90 million shares) in issue during the year /period

**19. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents comprise of the following:

|  | <u>Notes</u> | <u>2017</u>   | <u>2016</u>    |
|--|--------------|---------------|----------------|
| Cash in hand   | 4            | 10            | 10             |
| Cash at bank – current account   | 4            | 21,643        | 227,004        |
| Held to maturity investments with an original maturity of three months or less from the date of purchase | 7            | --            | 203,547        |
|  |              | <u>21,653</u> | <u>430,561</u> |

**20. RELATED PARTY TRANSACTIONS AND BALANCES**

The related parties of the Company include the shareholders and their affiliated entities and certain key management personnel. In the ordinary course of its activities, the Company transacts business with its related parties on mutually agreed terms. Key management personnel includes Chief Executive Officer (“CEO”) and the personnel directly reporting to CEO. Entity under common management has the Chairman of the Board who is the CEO of the Company.

The significant transactions with related parties during the year / period and the related balances are as follows:

| <u>Name of related party</u>                          | <u>Nature of relationship</u>   | <u>Nature of transaction</u>                 | <u>Amount of transaction during the year</u> | <u>Balance as at 31 December 2017</u> |
|---|---------------------------------|--|--|---------------------------------------|
| Islamic Corporation for Development Money Market Fund | A fund managed by a shareholder | Sale of available-for-sale investment        | (78,845)                                     | --                                    |
| Saudi Finance Lease Registry Company                  | Common Management               | - Expenses incurred on behalf of the Company | 40   | 40                                    |
|   |                                 | - Advance for investment                     | 893  | 893                                   |

**BIDAYA HOME FINANCE COMPANY**  
(A Saudi Closed Joint Stock Company)  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2017  
(Saudi Arabian Riyals in '000)

**20. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)**

| <u>Name of related parties</u>                        | <u>Nature of relationship</u>   | <u>Nature of transaction</u>               | <u>Amount of transaction during the period</u> | <u>Balance as at 31 December 2016</u> |
|---|---------------------------------|--|--|---------------------------------------|
| Islamic Corporation for Development                   | Shareholder                     | - Payment of pre-operating expenses        | 23,208   | --                                    |
|   |                                 | - Reimbursement of pre-operating expenses  | (23,208)                                       | --                                    |
| Islamic Corporation for Development Money Market Fund | A fund managed by a shareholder | Purchase of available-for-sale investments | 75,180   | 78,096                                |

The amounts of compensations recorded in favor of or paid to the Board of Directors and the executive management personnel during the year are as follows:

| <u>Name of related parties</u> | <u>Nature of transactions</u>                      | <u>Amount of transactions for year ended 31 December 2017</u> | <u>Amount of transactions for the period from 31 March 2015 to 31 December 2016</u> |
|--------------------------------|--|---|---|
| Key Management Personnel       | - Salaries and benefits                            | 6,830   | 7,570   |
|                                | - Provision for end of service employees' benefits | 255   | 281   |
|                                | - Directors' remuneration and meeting expenses     | 3,955   | 3,761   |

| <u>Name of related parties</u> | <u>Nature of transactions</u>                      | <u>Balance at 31 December 2017</u> | <u>Balance at 31 December 2016</u> |
|--------------------------------|--|------------------------------------|------------------------------------|
| Key Management Personnel       | - Salaries and benefits                            | --                                 | 353                                |
|                                | - Provision for end of service employees' benefits | 520                                | 315                                |
|                                | - Directors' remuneration and meeting expenses     | 1,988                              | --                                 |



**BIDAYA HOME FINANCE COMPANY**  
(A Saudi Closed Joint Stock Company)  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2017  
(Saudi Arabian Riyals in '000)

**21. COMMITMENTS**

The Company has facilities approved but not utilized, indicative offers issued which are under consideration of the customers and due diligence in progress as of the reporting date which have the potential to convert into financing, amount to SR 7.96 million (2016: SR 21.532 million).

In addition, the Company has leased the head office building and Riyadh branch for a period of 5 years. Outstanding lease commitments expire as follows:

|                     |              |              |
|---------------------|--------------|--------------|
|                     | <u>2017</u>  | <u>2016</u>  |
| Within one year     | 3,220        | 3,220        |
| Two to three years  | 2,638        | 5,033        |
| Three to five years | -            | 824          |
|                     | <u>5,858</u> | <u>9,077</u> |

**22. RISK MANAGEMENT**

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including profit rate risks, equity price risk and currency risk). The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

Risk management is carried out under policies approved by the management. The management identifies, evaluates and has written principles for overall risk management covering specific areas, such as foreign exchange risk, profit rate risk, credit risk and investment of excess liquidity.

***Credit risk***

Credit risk is the risk that one party to a financial instrument may fail to discharge its contractual obligation and cause the other party to incur a financial loss. The Company has established procedures to manage credit risk including evaluation of lessees' credit worthiness, formal credit approvals and obtaining collateral. Furthermore, all the Ijara financing are allowed for a maximum term of 30 years.

The Company follows a credit classification mechanism, as a tool to manage the quality of credit risk of the financed Ijara. The credit classification differentiates between performing and non-performing portfolios, and allocates provisions accordingly.

The credit risks on gross amounts due in relation to the Ijara receivables is mitigated by the retention of title on leased assets as reduced by the down payments made by the customers.

The Company's held to maturity investments are concentrated with banks that are incorporated in the Kingdom of Saudi Arabia and have sound credit ratings.

The table below reflects the maximum exposure to credit risk on the financial assets at the reporting date:

|                                |                |                |
|--------------------------------|----------------|----------------|
|                                | <u>2017</u>    | <u>2016</u>    |
| Cash at bank                   | 21,643         | 227,004        |
| Held to maturity investments   | -              | 203,547        |
| Ijara receivables              | 882,541        | 355,595        |
| Deposits and other receivables | 9,466          | 3,059          |
|                                | <u>913,650</u> | <u>789,205</u> |

**BIDAYA HOME FINANCE COMPANY**  
(A Saudi Closed Joint Stock Company)  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2017  
(Saudi Arabian Riyals in '000)

**22. RISK MANAGEMENT (CONTINUED)**

The table below reflects the concentration of the credit risk:

| <u>Industry sector</u> | <u>2017</u>    | <u>2016</u>    |
|------------------------|----------------|----------------|
| Blue chip              | 335,281        | 84,512         |
| Government             | 201,692        | 58,890         |
| Private                | 157,730        | 115,648        |
| Self-employed          | 121,784        | 76,338         |
| Semi-government        | 66,054         | 20,207         |
|                        | <u>882,541</u> | <u>355,595</u> |

**Liquidity risk**

Liquidity risk is the risk that the Company may encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. The Company monitors and manages the liquidity structure of its assets and liabilities to ensure that cash flows are sufficiently balanced and that sufficient liquid funds are maintained to meet liquidity requirements.

The tables below summarize the maturity profile of the Company's financial assets and liabilities on discounted cash flows, on the basis of the remaining contractual maturity as of the statement of financial position date to the contractual maturity date.

|  | Carrying value | More than three months and upto one year |               | More than one year and upto five years |                | Over five years | No fixed maturity | Total          |
|--|----------------|--|---------------|--|----------------|-----------------|-------------------|----------------|
|  |                | Upto three months                        | upto one year | and upto five years                    | years          |                 |                   |                |
| <b>31 December 2017</b>                        |                |  |               |  |                |                 |                   |                |
| <b>Assets</b>                                  |                |  |               |  |                |                 |                   |                |
| Cash and bank balances                         | 21,653         | --                                       | --            | --                                     | --             | --              | 21,653            | 21,653         |
| Held-for-trading investment                    | 50,013         | --                                       | --            | --                                     | --             | --              | 50,013            | 50,013         |
| Ijara receivables                              | 882,541        | 5,452                                    | 29,365        | 119,478                                | 728,246        | --              | --                | 882,541        |
| Deposits and other receivables                 | 10,359         | 9,246                                    | --            | 220                                    | --             | --              | 893               | 10,359         |
|  | <u>964,566</u> | <u>14,698</u>                            | <u>29,365</u> | <u>119,698</u>                         | <u>728,246</u> | <u>72,559</u>   | <u>72,559</u>     | <u>964,566</u> |
| <b>Liabilities</b>                             |                |  |               |  |                |                 |                   |                |
| Short-term borrowing                           | 100,000        | 100,000                                  | --            | --                                     | --             | --              | --                | 100,000        |
| Accrued expenses and other current liabilities | 19,537         | 18,222                                   | --            | --                                     | --             | --              | 1,315             | 19,537         |
|  | <u>119,537</u> | <u>118,222</u>                           | <u>--</u>     | <u>--</u>                              | <u>--</u>      | <u>--</u>       | <u>1,315</u>      | <u>119,537</u> |
| Gap  | <u>845,029</u> | <u>(103,524)</u>                         | <u>29,365</u> | <u>119,698</u>                         | <u>728,246</u> | <u>71,244</u>   | <u>71,244</u>     | <u>845,029</u> |

**BIDAYA HOME FINANCE COMPANY**  
(A Saudi Closed Joint Stock Company)  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2017  
(Saudi Arabian Riyals in '000)

**22. RISK MANAGEMENT (CONTINUED)**

|  | Carrying value | Upto three months | More than three months and upto one year | More than one year and upto five years | Over five years | No fixed maturity | Total          |
|--|----------------|-------------------|--|--|-----------------|-------------------|----------------|
| <u>31 December 2016</u>                        |                |                   |  |  |                 |                   |                |
| <b>Assets</b>                                  |                |                   |  |  |                 |                   |                |
| Cash and bank balances                         | 227,014        | --                | --                                       | --                                     | --              | 227,014           | 227,014        |
| Available-for-sale investments                 | 78,096         | --                | --                                       | --                                     | --              | 78,096            | 78,096         |
| Held to maturity investments                   | 203,547        | 203,547           | --                                       | --                                     | --              | --                | 203,547        |
| Ijara receivables                              | 355,595        | 4,141             | 10,432                                   | 47,055                                 | 293,967         | --                | 355,595        |
| Deposits and other receivables                 | 3,059          | 2,846             | --                                       | 213                                    | --              | --                | 3,059          |
|  | <u>867,311</u> | <u>210,534</u>    | <u>10,432</u>                            | <u>47,268</u>                          | <u>293,967</u>  | <u>305,110</u>    | <u>867,311</u> |
| <b>Liabilities</b>                             |                |                   |  |  |                 |                   |                |
| Accrued expenses and other current liabilities | 19,225         | 17,300            | --                                       | --                                     | --              | 1,925             | 19,225         |
|  | <u>19,225</u>  | <u>17,300</u>     | <u>--</u>                                | <u>--</u>                              | <u>--</u>       | <u>1,925</u>      | <u>19,225</u>  |
| Gap  | <u>848,086</u> | <u>193,234</u>    | <u>10,432</u>                            | <u>47,268</u>                          | <u>293,967</u>  | <u>303,185</u>    | <u>848,086</u> |

The following table discloses the maturity of financial liabilities on undiscounted cash flows:

|  | Upto three months | More than three months and upto one year | More than one year and upto five years | No fixed maturity | Total          |
|--|-------------------|--|--|-------------------|----------------|
| <u>31 December 2017</u>                      |                   |  |  |                   |                |
| Short-term-borrowings                        | 100,876           | --                                       | --                                     | --                | 100,876        |
| Accrued expenses & other current liabilities | 18,222            | --                                       | --                                     | 1,315             | 19,537         |
| <b>31 December 2017</b>                      | <u>119,098</u>    | <u>--</u>                                | <u>--</u>                              | <u>1,315</u>      | <u>120,413</u> |
| 31 December 2016                             | <u>17,300</u>     | <u>--</u>                                | <u>--</u>                              | <u>1,925</u>      | <u>19,225</u>  |

**Market risk**

Market risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as special commission rates and foreign exchange rates. Market rate can be categorised into profit rate risk, equity price risk and currency risk as follows:

**Profit rate risk**

Profit rate risk is the uncertainty of future earnings resulting from fluctuations in profit rates. The risk arises when there is a mismatch in the assets and liabilities which are subject to profit rate adjustment within a specified period. The most important source of such rate risk at the date in the statement of financial position are the Company's Ijara receivables and investment activities, where fluctuations in profit rates, if any, are reflected in the results of operations. The Company's held to maturity investments in Murabaha placements are short-term in nature and the Company monitors changes in rate periodically and determines the risk of holding them based on changes in market rates. Fluctuations in rates of financing for the Ijara receivables, if any, are reflected in the statement of profit or loss.

**BIDAYA HOME FINANCE COMPANY**  
(A Saudi Closed Joint Stock Company)  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2017  
(Saudi Arabian Riyals in '000)

**22. RISK MANAGEMENT (CONTINUED)**

The following table depicts the sensitivity to a reasonable possible change in profit rates, with other variables held constant, on the Company's profit or loss. The sensitivity of income is the effect of the assumed changes in profit rates on the Ijara income for one year, based on the floating rate non-trading financial assets.

| Currency (SR)    | Increase in basis points | Sensitivity of profit or loss | Upto three months | More than three months and upto one year | More than one year and upto five years | Over five years |
|------------------|--------------------------|-------------------------------|-------------------|--|--|-----------------|
| 31 December 2017 | +/- 25                   | 2,206                         | 14                | 73                                       | 298                                    | 1,821           |
| 31 December 2016 | +/- 25                   | 1,398                         | 519               | 26                                       | 118                                    | 735             |

The Company is exposed to profit rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or re-price in a given period. The Company manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

The table below summarises the Company's exposure to profit rate risks. Included in the table are the Company's financial instruments at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

|  | 31 December 2017 |                   |  |  |                 |                   | Total          |
|--|------------------|-------------------|--|--|-----------------|-------------------|----------------|
|  | Carrying value   | Upto three months | More than three months and upto one year | More than one year and upto five years | Over five years | No fixed maturity |                |
| <b>Assets</b>                                  |                  |                   |  |  |                 |                   |                |
| Cash and bank balances                         | 21,653           | --                | --                                       | --                                     | --              | 21,653            | 21,653         |
| Held-for-trading investment                    | 50,013           | --                | --                                       | --                                     | --              | 50,013            | 50,013         |
| Ijara receivables                              | 882,541          | 201,982           | 680,559                                  | --                                     | --              | --                | 882,541        |
| Deposits and other receivables                 | 10,359           | 9,246             | --                                       | 220                                    | --              | 893               | 10,359         |
|  | <u>964,566</u>   | <u>211,228</u>    | <u>680,559</u>                           | <u>220</u>                             | <u>--</u>       | <u>72,559</u>     | <u>964,566</u> |
| <b>Liabilities</b>                             |                  |                   |  |  |                 |                   |                |
| Short-term borrowing                           | 100,000          | 100,000           | --                                       | --                                     | --              | --                | 100,000        |
| Accrued expenses and other current liabilities | 19,537           | 18,222            | --                                       | --                                     | --              | 1,315             | 19,537         |
|  | <u>119,537</u>   | <u>118,222</u>    | <u>--</u>                                | <u>--</u>                              | <u>--</u>       | <u>1,315</u>      | <u>119,537</u> |
| Gap  | <u>845,029</u>   | <u>93,006</u>     | <u>680,559</u>                           | <u>220</u>                             | <u>--</u>       | <u>71,244</u>     | <u>845,029</u> |

**BIDAYA HOME FINANCE COMPANY**  
(A Saudi Closed Joint Stock Company)  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2017  
(Saudi Arabian Riyals in '000)

**22. RISK MANAGEMENT (CONTINUED)**

|   | 31 December 2016  |                         |   |   |                    |                      |                |
|---|-------------------|-------------------------|---|---|--------------------|----------------------|----------------|
|   | Carrying<br>value | Upto<br>three<br>months | More than<br>three months<br>and upto one<br>year | More than<br>one year<br>and upto<br>five years | Over five<br>years | No fixed<br>maturity | Total          |
| <b>Assets</b>                                     |                   |                         |   |   |                    |                      |                |
| Cash and bank balances                            | 227,014           | --                      | --  | --  | --                 | 227,014              | 227,014        |
| Available-for-sale<br>investment                  | 78,096            | --                      | --  | --  | --                 | 78,096               | 78,096         |
| Held to maturity<br>investments                   | 203,547           | 203,547                 | --  | --  | --                 | --                   | 203,547        |
| Ijara receivables                                 | 355,595           | 4,141                   | 10,432  | 341,022   | --                 | --                   | 355,595        |
| Deposits and other<br>receivables                 | 3,059             | 2,846                   | --  | 213   | --                 | --                   | 3,059          |
|   | <u>867,311</u>    | <u>210,534</u>          | <u>10,432</u>                                     | <u>341,235</u>                                  | <u>--</u>          | <u>305,110</u>       | <u>867,311</u> |
| <b>Liabilities</b>                                |                   |                         |   |   |                    |                      |                |
| Accrued expenses and<br>other current liabilities | 19,225            | 17,300                  | --  | --  | --                 | 1,925                | 19,225         |
| Gap   | <u>848,086</u>    | <u>193,234</u>          | <u>10,432</u>                                     | <u>341,235</u>                                  | <u>--</u>          | <u>303,185</u>       | <u>848,086</u> |

**Equity Price Risk**

Equity risk refers to the risk of decrease in fair values of equities in the Company's non-trading investment portfolio as a result of reasonable possible changes in levels of equity indices and the value of individual stocks.

The effect on the Company's equity investments held in mutual funds due to reasonable possible change in prices, with all other variables held constant, is as follows:

|                  | Mutual funds                   |                         |
|------------------|--------------------------------|-------------------------|
|                  | Change in<br>Equity price<br>% | Effect in SR<br>in '000 |
| 31 December 2017 | +/- 5                          | +/- 2,500               |
| 31 December 2016 | +/- 5                          | +/- 3,905               |

**Currency risk**

Currency risk is the risk that the value of financial instruments may fluctuate due to changes in foreign exchange rates. The Company is subject to fluctuations in foreign exchange rates in the normal course of its business. The Company is not exposed to significant currency risk as most of its transactions are in the local currency.

**23. FAIR VALUES OF FINANCIAL INSTRUMENTS**

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

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

**BIDAYA HOME FINANCE COMPANY**  
(A Saudi Closed Joint Stock Company)  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2017  
(Saudi Arabian Riyals in '000)

**23. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)**

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

Financial instruments comprise financial assets and financial liabilities.

Financial assets consist of cash and cash equivalents, held to maturity investments, available-for-sale investments and other receivables. Financial liabilities consist of accrued expenses and other liabilities payable.

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

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above. The following table shows the carrying amounts and fair values of financial instruments including their levels in the fair value hierarchy:

|  |  | 31 December 2017  |         |         |         |         |
|--|--|-------------------|---------|---------|---------|---------|
|  |  | Carrying<br>value | Level 1 | Level 2 | Level 3 | Total   |
| <b>Financial assets at fair value</b>              |  |                   |         |         |         |         |
| Held-for-trading investment                        |  | 50,013            | --      | 50,013  | --      | 50,013  |
|  |  |                   |         |         |         |         |
|  |  | 31 December 2016  |         |         |         |         |
|  |  | Carrying<br>value | Level 1 | Level 2 | Level 3 | Total   |
| <b>Financial assets at fair value</b>              |  |                   |         |         |         |         |
| Available-for-sale investment                      |  | 78,096            | --      | 78,096  | --      | 78,096  |
|  |  |                   |         |         |         |         |
|  |  | 31 December 2017  |         |         |         |         |
|  |  | Carrying<br>value | Level 1 | Level 2 | Level 3 | Total   |
| <b>Financial assets not measured at fair value</b> |  |                   |         |         |         |         |
| Cash and bank balance                              |  | 21,653            | 21,653  | --      | -       | 21,653  |
| Ijara receivables, net                             |  | 882,541           | --      | --      | 630,455 | 630,455 |
| Deposits and other receivables                     |  | 10,359            | --      | --      | 10,359  | 10,359  |
|  |  | 914,553           | 21,653  | --      | 640,814 | 662,467 |

**BIDAYA HOME FINANCE COMPANY**  
(A Saudi Closed Joint Stock Company)  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2017  
(Saudi Arabian Riyals in '000)

**23. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)**

|  | 31 December 2016  |                |           |                |                |
|--|-------------------|----------------|-----------|----------------|----------------|
|  | Carrying<br>value | Level 1        | Level 2   | Level 3        | Total          |
| <u>Financial assets not measured at fair value</u> |                   |                |           |                |                |
| Cash and bank balance                              | 227,014           | 227,014        | --        | --             | 227,014        |
| Held to maturity investments                       | 203,547           | --             | --        | 203,547        | 203,547        |
| Ijara receivables, net                             | 351,150           | --             | --        | 351,150        | 351,150        |
| Deposits and other receivables                     | 3,059             | --             | --        | 3,059          | 3,059          |
|  | <u>784,770</u>    | <u>227,014</u> | <u>--</u> | <u>557,756</u> | <u>784,770</u> |

|   | 31 December 2017  |           |           |                |                |
|---|-------------------|-----------|-----------|----------------|----------------|
|   | Carrying<br>value | Level 1   | Level 2   | Level 3        | Total          |
| <u>Financial liabilities not measured at fair value</u> |                   |           |           |                |                |
| Short-term-borrowings                                   | 100,000           | --        | --        | 100,000        | 100,000        |
| Accrued expenses and other current liabilities          | 19,537            | --        | --        | 19,537         | 19,537         |
|   | <u>119,537</u>    | <u>--</u> | <u>--</u> | <u>119,537</u> | <u>119,537</u> |

|   | 31 December 2016  |           |           |               |               |
|---|-------------------|-----------|-----------|---------------|---------------|
|   | Carrying<br>value | Level 1   | Level 2   | Level 3       | Total         |
| <u>Financial liabilities not measured at fair value</u> |                   |           |           |               |               |
| Accrued expenses and other current liabilities          | 19,225            | --        | --        | 19,225        | 19,225        |
|   | <u>19,225</u>     | <u>--</u> | <u>--</u> | <u>19,225</u> | <u>19,225</u> |

Since all the held to maturity investments are short-term, their carrying value approximates the fair value, while held for trading and available-for-sale investments in units of mutual funds have been valued based on net assets value reported by the Fund Manager.

The fair value of Ijara receivables is based on actual cash flows discounted by average period end internal rate of return and is not evidenced by a quoted price in an active market for an identical asset or based on a valuation technique that uses only data from observable markets, hence the fair value of Ijara receivables is classified under level 3.

During the year ended 31 December 2017, there were no transfers into or out of Level 3.

**24. CAPITAL MANAGEMENT**

The Company's policy is to maintain a strong capital base to maintain creditor and market confidence and to sustain future development of the business. Management monitors the return on capital as well as the level of dividends to ordinary shareholders.

The Board of Directors seeks to maintain a balance between the higher returns that might be possible with the advantages afforded by a sound capital position.

**BIDAYA HOME FINANCE COMPANY**  
(A Saudi Closed Joint Stock Company)  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2017

**25. SEGMENT INFORMATION**

The Company objective is to provide financing for real estate leases in the Kingdom of Saudi Arabia. All assets, liabilities and operations as reflected in the statement of financial position and statement of profit or loss belongs to the real estate financing segment

**26. ISSUED IFRS BUT NOT YET EFFECTIVE**

The Company has not early adopted the following new IFRS and amendments to IFRS effective for annual periods beginning on or after 1 January 2017:

|                      |   | <u>Effective for annual periods<br/>beginning on or after</u> |
|----------------------|---|---|
| IFRS 9               | Financial instruments   | 1 January 2018  |
| IFRS 15              | Revenue from contracts with customers                                 | 1 January 2018  |
| Amendments to IFRS 2 | Classification and Measurement of<br>Share-based Payment Transactions | 1 January 2018  |
| IFRS 16              | Leases  | 1 January 2019  |

The management is in the process of assessing the impact of the above IFRSs except for IFRS 9-(refer note 28) and amendments to IFRS on financial statements.

**27. CHANGE IN ACCOUNTING POLICY**

The change in the accounting policy relating to zakat has the following impacts on the line items of statements of profit or loss and other comprehensive income:

|   | <u>For the year ended 31 December 2016</u> |                   |                    |
|---|--|-------------------|--------------------|
|   | <u>As previously<br/>reported</u>          | <u>Adjustment</u> | <u>As restated</u> |
| Net loss for the period                 | (62,012)                                   | 12,168            | (49,844)           |
| Total comprehensive loss for the period | (59,096)                                   | 12,168            | (46,928)           |
| Loss per share                          | (0.69)                                     | 0.14              | (0.55)             |

The above change in accounting policy did not have an impact on statement of financial position and cash flows for any of the periods presented.

**28. IMPLEMENTATION AND IMPACT ANALYSIS OF IFRS 9**

**Implementation strategy**

In July 2014, the IASB issued IFRS 9 Financial Instruments, the standard that replaces IAS 39 Financial Instruments: Recognition and Measurement effective from 1 January 2018, with early adoption permitted. The Company considers implementing IFRS 9 as a significant project and therefore has set up a multidisciplinary implementation team with members from its Credit risk and Modeling, Finance, IT, Operations and other respective businesses to achieve a successful



**BIDAYA HOME FINANCE COMPANY**  
(A Saudi Closed Joint Stock Company)  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2017

**28. IMPLEMENTATION AND IMPACT ANALYSIS OF IFRS 9 (CONTINUED)**

**Implementation strategy (continued)**

and robust implementation. The project is managed by the Chief Financial Officer and the Head of Risk.

**Classification and measurement**

The classification and measurement of financial assets (except equity instruments and derivatives) will depend on how these are managed (the entity's business model) and their contractual cash flow characteristics. These factors determine whether the financial assets are measured at amortised cost, fair value through other comprehensive income ('FVOCI') or fair value through profit or loss ('FVTPL'). For equity instruments that are not held for trading, the Company may irrevocably elect to designate them as FVOCI, with no subsequent reclassification of gains or losses to the income statement. This election is made on an investment-by-investment basis.

The Company does not expect any material impact on classification of Ijarah receivables since these are measured under IAS 17.

Under IFRS 9, the accounting for financial liabilities will largely remain similar to IAS 39. The de-recognition rules have been transferred from IAS 39 and have not been changed. The Company therefore does not expect any material impact on its financial liabilities and the de-recognition accounting policy.

**Impairment**

The Company will recognise impairment allowances based on a forward looking Expected Credit Loss (ECL) approach on financial assets that are not measured via FVTPL. This mainly include investments that are measured at amortised cost or at FVOCI (other than equity investments), Ijarah receivables and credit commitments. No impairment loss will be recognised on equity investments. The key inputs into the measurement of ECL are the term structure of the following variables:

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

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

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

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

**BIDAYA HOME FINANCE COMPANY**  
(A Saudi Closed Joint Stock Company)  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2017

**28. IMPLEMENTATION AND IMPACT ANALYSIS OF IFRS 9 (CONTINUED)**

**Impairment (continued)**

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

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

The forward-looking information will include the elements such as macroeconomic factors (e.g., unemployment, GDP growth, inflation, profit rates and house prices) and economic forecasts obtained through internal and external sources.

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

The Company is now in the final phase of implementation; whereby parallel run exercise is currently under process together with various level of validations before going live on 1 January 2018.

**Overall expected impact**

The Company has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of IFRS 9 on 1 January 2018:

- According to transitional provisions for initial application of IFRS 9, the Company is allowed to recognise any difference between previous carrying amount under IAS 39 and the carrying amount at the beginning of the annual reporting period that includes the date of initial application in opening retained earnings. Accordingly, the overall effect is expected to impact the carrying value of financial assets and total equity by less than one percent on the date of initial application in opening retained earnings arising due to application of expected credit loss model as against Incurred loss model;
- The new standard also introduces extended disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Company's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

**Governance and controls**

The Governance structure and controls is currently under implementation in line with the IFRS 9 Guidance document applicable to Saudi Financial Institutions. These Guidelines require Financial Institutions to establish a Board approved Governance framework with detailed policies and controls, including roles and responsibilities. The Company has a centrally managed IFRS 9 programme, which includes subject matter experts on methodology, data sourcing and modelling, IT processing and reporting. The Company's work to date has covered performing an assessment of the population of financial instruments impacted by the classification and measurement requirements of IFRS 9 and developing an impairment methodology to support the calculation of

**BIDAYA HOME FINANCE COMPANY**  
(A Saudi Closed Joint Stock Company)  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2017

**28. IMPLEMENTATION AND IMPACT ANALYSIS OF IFRS 9 (CONTINUED)**

**Governance and controls (continued)**

the Expected Credit Loss (ECL) allowance. Specifically, during 2017 the Company conducted business model assessments and financial instrument's contractual cash flow analysis, developed its approach for assessing significant increase in credit risk ("SICR"), incorporating forward looking information, including macro-economic factors and preparing the required IT systems and process architecture. The Company has performed a full end-to-end parallel run based on 31 December 2017 data to assess procedural readiness. Overall governance of the program's implementation is through the IFRS 9 Steering Committee and includes representation from Finance, Risk and IT. The Company is in the process of enhancing its governance framework to implement appropriate validations and controls over new key processes and significant areas of judgment such as SICR determining and applying forward-looking information in multiple economic scenarios and computation of ECL.

**Caveat:**

The estimated decrease in shareholders' equity includes the impact of the increase to credit impairment provisions compared to those applied at 31 December 2017 under IAS 39. The assessment above is a point in time estimate and is not a forecast. The actual effect of the implementation of IFRS 9 on the Company could vary significantly from this estimate. The Company continues to refine models, methodologies and controls, and monitor developments in regulatory rule making in advance of IFRS 9 adoption on 1 January 2018. Although parallel runs were carried out in the second half of 2017, the new systems and associated controls in place have not been operational for a more extended time. As a result, the Company has not finalised the testing and assessment of controls over its new IT systems and changes to its governance framework. All estimates are based on the Company's current interpretation of the requirements of IFRS 9, reflecting industry guidance and discussions to date.

**29. APPROVAL OF FINANCIAL STATEMENTS**

The financial statements and its accompanying notes were approved for issue by the Board of Directors' on 12 Jumada l-Alkhirah 1439H (corresponding to 28 February 2018).