AMLAK INTERNATIONAL FOR
REAL ESTATE FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
FINANCIAL STATEMENTS
For the year ended 31 December 2018
together with the
INDEPENDENT AUDITORS' REPORT

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

Independent auditors' report to the shareholders of Amlak International for Real Estate Finance Company

Opinion

We have audited the financial statements of **Amlak International for Real Estate Finance Company** ("the Company"), which comprise the statement of financial position as at 31 December 2018, the statements of profit or loss, 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 2018, 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.

Independent auditors' report to the shareholders of Amlak International for Real Estate Finance Company (Continued)

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 **Amlak International for Real Estate Finance Company** ("the Company").

For KPMG Al Fozan & Partners
Certified Public Accountants

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Certified Public Accountants
KPMG Al Fozan & Partners

Khalil Ibrahim Al Sedais
License No.: 371

Riyadh on: 7 Jumada'II 1440H
Corresponding to: 12 February 2019

AMLAK INTERNATIONAL FOR REAL ESTATE FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF FINANCIAL POSITION
As at 31 December 2018
(SR '000)

	Notes	**2018**	2017
ASSETS			
Cash and cash equivalents	*4*	**15,965**	29,634
Murabaha receivables, net	*6*	**108,256**	260,749
Ijara receivables, net	*7*	**2,902,822**	2,744,421
Ijara Mawsofa Fi Athemmah receivables, net	*8*	**79,662**	116,696
Available-for-sale investment	*5*	**-**	12,887
Investments at fair value through other comprehensive income (FVOCI)	*5*	**12,484**	-
Positive fair value of derivatives	*13*	**1,087**	1,046
Prepayments and other assets	*9*	**106,985**	103,218
Investment in joint ventures	*10*	**7,922**	29,530
Property and equipment, net	*11*	**27,838**	28,899
TOTAL ASSETS		**3,263,020**	3,327,080
LIABILITIES AND SHAREHOLDERS' EQUITY			
Accrued expenses and other liabilities	*12*	**92,086**	68,312
Bank borrowings	*15*	**1,994,132**	2,072,175
Zakat and income tax payable	*14*	**36,790**	3,722
Negative fair value of derivatives	*13*	**-**	666
Employee benefits	*16*	**13,618**	12,909
TOTAL LIABILITIES		**2,136,626**	2,157,784
Share capital	*17*	**906,000**	903,000
Statutory reserve	*18*	**61,415**	51,654
Available-for-sale investment reserve	*5*	**-**	887
Fair value reserve	*5*	**(409)**	-
Cash flow hedge reserve	*13*	**1,087**	380
Retained earnings		**158,301**	213,375
Total shareholders' equity		**1,126,394**	1,169,296
Total liabilities and shareholders' equity		**3,263,020**	3,327,080

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

AMLAK INTERNATIONAL FOR REAL ESTATE FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2018
(SR '000)

	Notes	**2018**	2017
INCOME			
Income from Murabaha contracts		**16,370**	29,759
Income from Ijara contracts		**236,590**	224,139
Income from Ijara Mawsofa Fi Athemmah contracts		**6,398**	7,646
Fees and commission income		**7,725**	5,870
Total income from Murabaha, Ijara and Ijara mawsofa fi athemah		**267,083**	267,414
EXPENSES			
Fee expense		**(1,581)**	(1,422)
Borrowing facility cost and charges	*15*	**(88,087)**	(91,755)
Net income from Murabaha, Ijara and ijara mawsofa fi athemah		**177,415**	174,237
Other operating income			
Other income		**226**	-
		177,641	174,237
Other operating expenses			
Depreciation and write off	*11*	**(3,044)**	(2,054)
General and administrative expenses	*21*	**(66,802)**	(65,046)
Selling and marketing expenses	*22*	**(8,208)**	(8,955)
Impairment loss on property and equipment	*11*	**(2,100)**	(2,905)
Impairment allowance for credit losses, net		**98**	(1,434)
		(80,056)	(80,394)
Net operating income		**97,585**	93,843
Arrangement fee		**268**	500
Share in net (loss) / income from joint ventures	*10*	**(240)**	8,911
Profit for the year		**97,613**	103,254
Basic and diluted earnings per share (SR)	*20*	**1.08**	1.14

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

AMLAK INTERNATIONAL FOR REAL ESTATE FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2018
(SR '000)

	Notes	**2018**	2017
Profit for the year		**97,613**	103,254
Other comprehensive income / (loss):			
Items that may be reclassified to profit or loss in subsequently years:			
Net movement in cash flow hedges		**707**	(1,456)
Net change in fair value of available-for-sale investments	*5*	**-**	1,899
Items that will not to be reclassified subsequently to profit or loss in subsequent years:			
Net change in fair value of investments at FVOCI	*5*	**(1,296)**	-
Actuarial (loss) / gain on defined benefit plans	*16*	**(929)**	268
Other comprehensive (loss) / income for the year		**(1,518)**	711
Total comprehensive income for the year		**96,095**	103,965

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

AMLAK INTERNATIONAL FOR REAL ESTATE FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended 31 December 2018
(SR '000)

	Share Capital	Statutory reserve	Available-for-sale investment reserve	Fair value reserve	Cash flow hedge reserve	Retained earnings	Total
For the year ended 31 December 2018							
Balance at 31 December 2017 – as previously reported	903,000	51,654	887	-	380	213,375	1,169,296
Impact of adopting of new standards at 1 January 2018 (note 3A)	-	-	(887)	887	-	(37,806)	(37,806)
Balance at 31 December 2017 – restated	903,000	51,654	-	887	380	175,569	1,131,490
Profit for the year	-	-	-		-	97,613	97,613
Other comprehensive income / (loss)	-	-	-	(1,296)	707	(929)	(1,518)
Total comprehensive income / (loss)	-	-	-	(1,296)	707	96,684	96,095
Zakat for the year (note 14)	-	-	-	-	-	(2,481)	(2,481)
Income tax for the year (note 14)	-	-	-	-	-	(511)	(511)
Provision for zakat (note 14)	-	-	-	-	-	(33,474)	(33,474)
Transfer to statutory reserve (note 18)	-	9,761	-	-	-	(9,761)	-
Dividend paid (note 19)	-	-	-	-	-	(67,725)	(67,725)
Increase in share capital (note 17)	3,000	-	-	-	-	-	3,000
Balance at 31 December 2018	906,000	61,415	-	(409)	1,087	158,301	1,126,394
For the year ended 31 December 2017							
Balance at 31 December 2016 – restated	900,000	41,329	(1,012)	-	1,836	191,119	1,133,272
Profit for the year	-	-	-	-	-	103,254	103,254
Other comprehensive income / (loss)	-	-	1,899	-	(1,456)	268	711
Total comprehensive income	-	-	1,899	-	(1,456)	103,522	103,965
Zakat for the year (note 14)	-	-	-	-	-	(2,717)	(2,717)
Income tax for the year (note 14)	-	-	-	-	-	(724)	(724)
Transfer to statutory reserve (note 18)	-	10,325	-	-	-	(10,325)	-
Dividend paid (note 19)	-	-	-	-	-	(67,500)	(67,500)
Increase in share capital (note 17)	3,000	-	-	-	-	-	3,000
Balance at 31 December 2017	903,000	51,654	887	-	380	213,375	1,169,296

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

AMLAK INTERNATIONAL FOR REAL ESTATE FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF CASH FLOW
For the year ended 31 December 2018

	Notes	**2018**	2017
Cash flows from operating activities:		**97,613**	103,254
Profit for the year			
Non-cash adjustment to reconcile profit for the period to net cash used in operating activities			
Depreciation and write off	*11*	**3,044**	2,054
Impairment loss on property and equipment	*11*	**2,100**	2,905
Borrowing facility cost and charges	*15*	**88,087**	91,755
Employees benefits	*16*	**2,495**	4,509
Impairment allowance for credit losses, net		**(98)**	1,434
Arrangement fee		**(268)**	-
Other income		**(226)**	-
Share of net loss / (income) from joint ventures	*10*	**240**	(8,911)
		192,987	197,000
(Increase) / decrease in operating assets			
Murabaha receivables		**150,056**	175,694
Ijara receivables		**(194,710)**	(213,461)
Ijara Mawsofa Fi Athemmah receivables		**38,072**	4,140
Prepayments and other assets		**1,165**	(68,297)
Increase / (decrease) in operating liabilities			
Accrued expenses and other liabilities		**26,774**	30,920
Cash generated from operations activities		**214,344**	125,996
Borrowing facility cost and charges paid	*15*	**(87,717)**	(93,019)
Employee benefits paid	*16*	**(2,715)**	(166)
Zakat and income tax paid	*14*	**(3,398)**	(3,722)
Net cash from operating activities		**120,514**	29,089
Cash flows from investing activities			
Purchase of property and equipment	*11*	**(4,082)**	(4,676)
Proceeds from withdrawals of investment in joint ventures	*10*	**18,164**	144,435
Investments in joint ventures	*10*	**(1,235)**	(52,230)
Investments at fair value through other comprehensive income		**(893)**	-
Net cash from investing activities		**11,954**	87,529
Cash flows from financing activities			
Repayment against bank borrowings	*15*	**(1,164,513)**	(846,331)
Proceeds from bank borrowings	*15*	**1,086,100**	817,500
Dividends paid	*19*	**(67,725)**	(67,500)
Net cash used in financing activities		**(146,138)**	(96,331)
Net (decrease) / increase in cash and cash equivalents		**(13,669)**	20,287
Cash and cash equivalents at beginning of the year	*4*	**29,634**	9,347
Cash and cash equivalents at end of the year	*4*	**15,965**	29,634
Non-cash supplemental information:			
Issuance of share capital	*17*	**3,000**	3,000
Distribution from joint venture		**4,439**	-
Available-for-sale investment- net change in fair value		-	1,899
Investments at fair value through other comprehensive income		**(1,296)**	-
Net movement in cash flow hedges		**707**	(1,456)

1 THE COMPANY AND THE NATURE OF OPERATIONS

Amlak International for Real Estate Finance Company ("Amlak" or the "Company") is a Saudi Closed Joint Stock Company established and registered in the Kingdom of Saudi Arabia under commercial registration number 1010234356 in Riyadh dated 25 Jumada Awal 1428H (corresponding to 11 June 2007).

As per the revised commercial registration certificate of the Company dated 11 Ramadan 1435H (corresponding to 8 July 2014), the objectives of the Company are to provide real estate finance as per Saudi Arabian Monetary Authority ("SAMA") license dated 21 Safar 1435H (corresponding to 24 December 2013). As part of the mortgage regulations, the Company is in the process of exiting from the investment related business.

The registered office of the Company is located at King Saud Road, Riyadh, Kingdom of Saudi Arabia. The Company has the following branches:

Branch Commercial Registration Number	Date of issuance	Location
2050057816	30/12/1428	Khobar
4030171680	24/07/1428	Jeddah

The Company owns a wholly owned Amlak International For Real Estate Development Company (the "Subsidiary"), having a share capital of SR 500,000. The objective of the Subsidiary is to hold titles to the real estate properties financed by the Company. The Company has not consolidated the subsidiary as it is not material.

2 BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements of the Company have been prepared:

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

b) in compliance with the provisions of the Regulations for Companies in the Kingdom of Saudi Arabia and the By-laws of the Company.

2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention except for the measurement of investments at fair value through other comprehensive income or available-for-sale and derivatives.

2.3 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set out below.

A CHANGE IN ACCOUNTING POLICIES

The accounting policies used in the preparation of these financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2017 except for the adoption of the following new standards.

Adoption of New Standards
Effective 1 January 2018, the Company has adopted IFRS 15 - Revenue from Contracts with Customers and IFRS 9 - Financial Instruments. Accounting policies for these new standards are disclosed in note 3 (b) of these financial statements. Significant judgments and estimates relating to IFRS 9 adoption are disclosed in this note and note 24 of these financial statements. The impact of the adoption of these standards is explained below:

IFRS 15 Revenue from Contracts with Customers
IFRS 15 was issued in May 2014 and is effective for annual periods commencing on or after 1 January 2018. IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes previously issued revenue guidance, which was found currently across several Standards and Interpretations within IFRS. It established a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The adoption of this standard had no material impact on the Company's financial statements.

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

As permitted by IFRS 9, the Company has elected to continue to apply the hedge accounting requirements of IAS 39.

The key changes to the Company accounting policies resulting from its adoption of IFRS 9 are summarized below.

Classification of financial assets and financial liabilities
IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost ("AC"), fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). This classification is generally based, except equity instruments and derivatives, on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognized in profit or loss, under IFRS 9 fair value changes are presented as follows:

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- The remaining amount of change in the fair value is presented in profit or loss.

For an explanation of how the Company classifies financial assets and liabilities under IFRS 9, see respective section of significant accounting policies.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model ("ECL"). IFRS 9 requires the Company to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts (if any). The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset. POCI assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

Under IFRS 9, credit losses are recognized earlier than under IAS 39. For an explanation of how the Company applies the impairment requirements of IFRS 9, see respective section of significant accounting policies.

To reflect the differences between IFRS 9 and IAS 39, IFRS 7 Financial Instruments: Disclosures was updated and the Company has adopted it, together with IFRS 9, for the year beginning 1 January 2018. Changes include transition disclosures as shown in this note, detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used are set out in note 24.

Reconciliations from opening to closing ECL allowances are presented in notes 24. IFRS 7 also requires additional and more detailed disclosures for hedge accounting even for entities opting to continue to apply the hedge accounting requirements of IAS 39.

Transition

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

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

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

  i. The determination of the business model within which a financial asset is held.

  ii. The designation of certain investments in equity instruments not held for trading as FVOCI.

(SR'000)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets and financial liabilities

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

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

	Original classification under IAS 39	New classification under IFRS 9	Original carrying value under IAS 39	New carrying value under IFRS 9
Financial assets				
Cash and cash equivalents	Loans and receivables	Amortised cost	29,634	29,634
Equity investments	Available-for-sale	FVOCI	12,887	12,887
Murabaha receivables, net	Loans and receivables	Amortised cost	260,749	252,368
Ijara receivables, net	Not applicable*	Not applicable*	2,744,421	2,714,053
Ijara Mawsofa Fi Athemmah receivable, net	Not applicable*	Not applicable*	116,696	117,639
Other assets	Loans and receivables	Amortised cost	9,835	9,835
			3,174,222	3,136,416
Financial liability				
Bank borrowings	Amortised cost	Amortised cost	2,072,175	2,072,175
Accrued expenses and other liabilities	Amortised cost	Amortised cost	21,637	21,637
			2,093,812	2,093,812

* The classification of these financial assets are not in scope of IFRS 9 and are subject to the requirement of IAS 17. However, these financial assets are subject to the derecognition and impairment requirement of IFRS 9.

ii) Reconciliation of carrying amounts under IAS 39 to carrying amounts under IFRS 9 at the adoption of IFRS 9.

The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018:

	IAS 39 carrying amount as at 31 December 2017	Reclassification	Re-measurement	IFRS 9 carrying amount as at 1 January 2018
Financial assets				
Murabaha receivables	260,749	-	(8,381)	252,368
Ijara receivables	2,744,421	-	(30,368)	2,714,053
Ijara Mawsofa Fi Athemmah receivables	116,696	-	943	117,639
Available-for-sale investment	12,887	(12,887)	-	
Investment at FVOCI	-	12,887	-	12,887
Total financial assets	**3,134,753**	-	**(37,806)**	**3,096,947**

There have been no reclassification or re-measurement in case of other then above mentioned financial assets and financial liabilities of the Company upon adoption of IFRS 9 as at 1 January 2018.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

iii) Impact on retained earnings and reserves

	Retained earnings	Available-for-sale investment reserve SR in '000'	Fair value reserve
Closing balance under IAS 39 (31 December 2017)	213,375	887	-
Reclassifications under IFRS 9	-	(887)	887
Recognition of expected credit losses under IFRS 9	(37,806)	-	-
Opening balance under IFRS 9 (1 January 2018)	175,569	-	887

iv) The following table provides carrying value of financial assets and financial liabilities in the statement of financial position under IFRS 9:

	31 December 2018		
	FVOCI – equity investments	Amortized Cost	Total carrying amount
Financial assets			
Cash and cash equivalents	-	15,965	15,965
Investments at FVOCI	12,484	-	12,484
Murabaha receivables	-	108,256	108,256
Ijara receivables	-	2,902,822	2,902,822
Ijara Mawsofa Fi Athemmah receivable	-	79,662	79,662
Other assets	-	14,861	14,861
Total financial assets	**12,484**	**3,121,566**	**3,134,050**
Financial liability			
Bank borrowings	-	1,994,132	1,994,132
Other liabilities	-	80,710	80,710
Total financial liabilities	-	**2,074,842**	**2,074,842**

	1 January 2018		
	FVOCI – equity investments	Amortized cost	Total carrying amount
Financial assets			
Cash and cash equivalents	-	29,634	29,634
Investments at FVOCI	12,887	-	12,887
Murabaha receivables	-	252,368	252,368
Ijara receivables	-	2,714,053	2,714,053
Ijara Mawsofa Fi Athemmah receivable	-	117,639	117,639
Other assets	-	25,589	25,589
Total financial assets	12,887	3,139,283	3,152,170
Financial liability			
Bank borrowings	-	2,072,175	2,072,175
Other liabilities	-	58,349	58,349
Total financial liabilities	-	2,130,524	2,130,524

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B POLICIES APPLICABLE FROM 1 JANUARY 2018

Classification of financial assets

On initial recognition, a financial asset is classified as measured at: amortized cost, FVOCI or fair value through profit or loss (FVTPL).

Financial asset at amortised cost

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

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

Financial asset at FVOCI

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

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

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Profit and foreign exchange gains and losses are recognised in profit or loss.

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

Financial asset at FVTPL

All other financial assets are classified as measured at FVTPL.

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Classification of financial assets (continued)

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

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

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

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Classification of financial liabilities

The Company classifies its financial liabilities, as measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium to issue the funds, and other cost that are integral part of the effective profit rate.

Derecognition

Financial assets

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

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of

(i) the consideration received (including any new asset obtained less any new liability assumed); and
(ii) any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss.

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

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

In certain transactions, the Company retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognized if it meets the derecognition criteria. An asset or liability is recognized for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

Financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expire.

Modifications of financial assets and financial liabilities

Financial assets

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Modifications of financial assets and financial liabilities (continued)

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

Impairment

The Company recognizes impairment allowance for ECL on the following financial instruments:

- Murabaha receivables;
- Ijara receivables; and
- Ijara Mawsofa Fi Athemmah receivables.

No impairment loss is recognized on equity investments.

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

- debt investment securities that are determined to have low credit risk at the reporting date; and

- other financial instruments on which credit risk has not increased significantly since their initial recognition

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

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

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

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

- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment (continued)

Credit-impaired financial assets

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

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or lease by the Company on terms that the Company would not consider otherwise; or
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

A loan or lease that has been renegotiated due to deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan or lease that is overdue for 90 days or more is considered impaired.

Presentation of allowance for ECL in the statement of financial position

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

Write-off

Murabaha receivables, Ijara receivables and Ijara Mawsofa Fi Athemmah receivables are written off (either partially or in full) when there is no realistic prospect of recovery. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to impairment charge for credit losses.

Collateral valuation

To mitigate its credit risks on financial assets, the Company seeks to use collateral, where possible. The collateral comes in various forms, such as financial guarantees and real estate. The Company accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same is it was under IAS 39. Collateral, unless repossessed, is not recorded on the Company statement of financial position. However, the fair value of the real estate collateral affects the calculation of ECL. It is generally assessed, at a minimum, at inception and re-assessed on a periodic basis.

To the extent possible, the Company uses active market data for valuing financial assets held as collateral. Non-financial collateral, such as real estate, is valued by third party valuers appointed by the Company.

Collateral repossessed

The Company accounting policy relating to collateral repossessed under IFRS 9 remains the same as it was under IAS 39. The Company policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Company policy.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income / expenses recognition

Income and expenses

Income from Murabaha, Ijara and Ijara mawsofa fi athemah contracts and borrowing costs are recognized in profit or loss using the effective profit method. The 'effective profit rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to or the amortized cost of the financial instrument.

When calculating the effective profit rate for financial instruments other than credit-impaired assets, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective profit rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective profit rate includes transaction costs and fees and points paid or received that are an integral part of the effective profit rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Measurement of amortized cost and income

The 'amortized cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective profit method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

In calculating profit, the effective profit rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, profit is calculated by applying the effective profit rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of profit reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, profit is calculated by applying the credit-adjusted effective profit rate to the amortized cost of the asset. The calculation of profit does not revert to a gross basis, even if the credit risk of the asset improves.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C POLICIES APPLICABLE BEFORE ADOPTION OF IFRS 9

Cash and cash equivalents

Cash and cash equivalents consist of bank balances and cash in hand.

Murabaha receivables

Murabaha is an agreement whereby the Company sells to a customer an asset, which the Company has purchased and acquired based on a promise received from the customer to buy. The selling price comprises the cost plus an agreed profit margin. Gross amounts due under the Murabaha sale contracts include the total of future sale payments on the Murabaha agreement (Murabaha sale contract receivable). The difference between the Murabaha sale contracts receivable and the cost of the sold asset, is recorded as unearned Murabaha profit and for presentation purposes, is deducted from the gross amounts due under the Murabaha sale contracts receivable.

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.

Ijara Mawsofa Fi Athemmah

Ijara Mawsofa Fi Athemmah is an agreement where in gross amounts due under originated Ijara Mawsofa Fi Athemmah includes the total of future lease payments on Ijara Mawsofa Fi Athemmah (lease contracts receivable), plus estimated residual amounts receivable. The difference between the lease contracts receivable and the cost of the leased assets is recorded as unearned Ijara Mawsofa Fi Athemmah income and for presentation purposes, is deducted from the gross amounts due under Ijara Mawsofa Fi Athemmah. Ijara Mawsofa Fi Athemmah income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Available-for-sale investment

Available-for-sale ("AFS") investments are non-derivative investments that are designated as AFS or not classified as another category of financial assets.

Unrealised gains or losses on revaluation of these investments are credited or charged to the statement of changes in shareholders' equity though the statement of other comprehensive income. Any significant or prolonged decline in the value of available-for-sale investments is charged to the statement of profit or loss.

When the investment is sold the gain or loss accumulated in equity is reclassified to profit or loss.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 a financial asset or a group of financial assets and that a loss event(s) has an impact on the future cash flows of 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;
- restructuring of Ijara receivables by the Company on terms that the Company would not consider otherwise;
- indications that a borrower will enter bankruptcy; or
- 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 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, income is thereafter recognised based on the rate of 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 impairment allowance for credit losses 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 borrower'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.

Investment in joint ventures

A joint venture (JV) is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Company's investments in joint venture are accounted for using the equity method.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Company's share of its JVs' post-acquisition income or losses is recognised in the statement of profit or loss. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Company's share of losses in a JV equals or exceeds its interest in the JV, including any other unsecured receivables, the Company does not recognise further losses, unless it has incurred obligations or made payments on behalf of the JV. Unrealised gains on transactions between the Company and its JVs are eliminated to the extent of the Company's interest in the JVs. Unrealised losses are also eliminated in the same way as unrealized gains unless the transaction provides evidence of an impairment of the asset transferred.

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.

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

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

	Years
Leasehold Improvements	shorter of 10 years or lease term
Furniture and fixtures	6
Office equipment	5
Information technology equipment	3 to 5 years

Accrued expenses and other current liabilities

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

Provisions

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

Financial liability

Initial recognition and measurement

The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value. The Company's financial liabilities include other payables, bank borrowings and derivative financial instruments.

Gains & losses are recognized in the statement of profit or loss when the liabilities are derecognized.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial liability

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.

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.

Derivative financial instruments and hedge accounting

The Company uses derivative financial instruments to hedge its exposure to commission rate. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from the changes in the fair value of derivatives are taken directly to the statement of profit or loss, except for the effective portion of cash flow hedges, which is recognised in equity.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been and are expected to be highly effective throughout the financial reporting periods for which they were / are designated.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, for forecast transactions, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to statement of profit or loss for the period.

Zakat and income tax

The Company's Saudi and GCC shareholders are subject to zakat and non-Saudi shareholders are subject to income tax in accordance with the regulations of the General Authority of Zakat and Tax (the "GAZT") as applicable in the Kingdom of Saudi Arabia.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employees' terminal benefits

The Company operates a defined benefit plan for employees in accordance with Saudi Labor Law as defined by the conditions stated in the laws of the Kingdom of Saudi Arabia. The cost of providing the benefits under the defined benefit plan is determined using the projected unit credit method.

Remeasurements for actuarial gains and losses are recognised immediately in the statement of financial position with a corresponding credit to retained earnings through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service cost are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date the Company recognises related restructuring costs

Interest cost is calculated by applying the discount rate to the net defined benefit liability. The Company recognises the following changes in the net defined benefit obligation in the statement of income of profit or loss:

- Service costs comprising current service costs, past service costs, gains and losses on curtailments and non routine-settlements (under general and administrative expenses)
- Net special commission expense or income (under borrowing facility cost and charges)

Expenses

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

Fee and commission income and expense

Feee income and expense that are integral part to the effective interest rate on a financial asset or financial liability are included in the effective interest rate. Other fee and commission income is recognised as the related services are performed including servicing income. Other fee expense relate mainly to transaction and services fee, which are expensed as the services are received.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of profit and other costs that an entity incurs in connection with the borrowing of funds.

Operating leases – where the Company acts as lessee

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.

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 totals 30% of the capital.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement

The Company measures certain financial instruments, such as, derivatives and equity instruments at fair value at each statement of financial position date. Also, fair values of financial instruments measured at amortized cost are disclosed in note 25.

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 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

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

Segment reporting

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

Other real estate asset

The Company acquires certain real estate against settlement of joint ventures and Murabaha, Ijarah and Ijara Mawsofa Fi Athemmah receivable balances. Such real estates are considered as assets held for sale and are initially stated at the lower of net realisable value of due receivable balances or the joint ventures and the current fair value of related properties, less any costs to sell.

D CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estiamtes. Estiamtes and underlying assumptions are reviewed on an ongoing basis. Revisions to estiamtes are recognised prospectively. Significant areas where management has used estimates, assumption or exercised judgment are as follows:

i. Impairment of financial assets

The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances

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

- The Company's internal credit grading, which assigns probability of defaults (PDs) to the individual grades;
- The Company's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime ECL basis and the qualitative assessment;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as Oil prices and collateral values, and the effect on PDs, exposure at default (EAD) and loss given defaults (LGD); and
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

(SR'000)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ii. Going concern

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

iii. Fair value measurement - refer note 3C and 25

iv. End of service benefits – refer note 16

4 CASH AND CASH EQUIVALENTS

	2018	2017
Cash in hand	**25**	23
Cash at bank – current accounts	**15,940**	29,611
	15,965	29,634

Bank balances are with counterparties that have investment grade credit ratings, i.e. 'BBB' or higher by Standard and Poor's or Moody's.

5 INVESTMENTS AT FVOCI / AFS

Investment at FVOCI (previously AFS investments) represents investment in 120 units of SAIB Saraya Tower Real Estate Development Fund (2017: 120 units), a close-ended real estate development fund managed by Alistithmar Capital and investment in Saudi Contract Registration Company (2017: nil).

The movement in cost and unrealized loss of the investments during the years was as follows:

	2018	2017
Cost at the beginning and end of the year	**12,000**	12,000
Additions during the year	**893**	-
Unrealised gain / (loss):		
At beginning of the year	**887**	(1,012)
Change in fair value, net	**(1,296)**	1,899
At end of the year	**(409)**	887
Net carrying amount	**12,484**	12,887

(SR'000)

6 MURABAHA RECEIVABLES, NET

	2018	2017
Gross Murabaha receivables	**113,466**	263,522
Less: Impairment allowance for credit losses	**(5,210)**	(2,773)
Murabaha receivables, net	**108,256**	260,749

6.1 The ageing of past due but not impaired Murabaha receivables was as follows:

Days past due:	2018	2017
1 – 30	**804**	42,073
31 – 60	**-**	53,326
61 –90	**5,218**	630
Total	**6,022**	96,029

The fair value of collaterals, based on latest independent appraisals, held against impaired Murabaha receivables as at 31 December was SR 20.84 million (2017: SR 73.3 million).

6.2 The maturity profile of Murabaha receivables (gross) as at 31 December was as follows:

	2018	2017
Not later than one year	**46,445**	136,054
Later than one year but not later than five years	**63,429**	126,674
Later than five years	**3,592**	794
Total	**113,466**	263,522

6.3 The table below stratifies credit exposures from Murabaha receivables into ranges of receivable to value ratio. Murabaha receivable 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 exclude any impairment allowance.

	2018	2017
Less than 50%	**41,138**	188,120
51-70%	**57,512**	75,402
71-85%	**14,816**	-
Total Exposure	**113,466**	263,522

(SR'000)

7 IJARA RECEIVABLES, NET

	2018	2017
Gross Ijara receivables	**3,948,092**	3,609,120
Less: Unearned income	**(962,803)**	(818,541)
	2,985,289	2,790,579
Less: Impairment allowance for credit losses	**(82,467)**	(46,158)
Ijara receivables, net	**2,902,822**	2,744,421

7.1 The ageing of past due but not impaired Ijara receivables was as follows:

Days past due:	2018	2017
1 – 30	**189,807**	72,466
31 – 60	**106,236**	51,523
61 –90	**105,262**	128,697
Total	**401,305**	252,686

The fair value of collaterals, based on latest independent appraisals, held against impaired Ijara receivables as at 31 December was SR 644.67 million (2017: SR 353.63 million).

7.2 The maturity profile of Ijara receivables as at 31 December was as follows:

	2018			
	Not later than one year	**Later than one year but not later than five years**	**Later than five years**	**Total**
Ijara receivables	**1,011,366**	**2,048,796**	**887,930**	**3,948,092**
Unearned income	**(234,500)**	**(481,066)**	**(247,237)**	**(962,803)**
	776,867	**1,567,730**	**640,693**	**2,985,289**
Impairment allowance for credit losses				**(82,467)**
				2,902,822

	2017			
	Not later than one year	Later than one year but not later than five years	Later than five years	Total
Ijara receivables	947,323	1,918,528	743,269	3,609,120
Unearned income	(206,662)	(418,999)	(192,880)	(818,541)
	740,661	1,499,529	550,389	2,790,579
Impairment allowance for credit losses				(46,158)
				2,744,721

(SR'000)

7 IJARA RECEIVABLES, NET (CONTINUED)

7.3 The table below stratifies credit exposures from Ijara receivables into ranges of receivable to value ratio. Ijara receivable 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.

	2018	2017
Less than 50%	**718,758**	968,424
51-70%	**1,283,993**	950,288
71-85%	**579,509**	780,163
86-100%	**403,028**	91,704
Total Exposure	**2,985,289**	2,790,579

8 IJARA MAWSOFA FI ATHEMMAH RECEIVABLES, NET

	2018	2017
Gross Ijara Mawsofa Fi Athemmah receivables	**131,864**	187,232
Less: Unearned income	**(51,973)**	(69,269)
	79,891	117,963
Less: Impairment allowance for credit losses	**(229)**	(1,267)
Ijara Mawsofa Fi Athemmah receivables, net	**79,662**	116,696

8.1 The ageing of past due but not impaired Ijara Mawsofa Fi Athemmah receivables as at 31 December was as follows:

Days past due:	**2018**	2017
1 – 30	**-**	2,027
31 – 60	**2,583**	1,017
61 –90	**-**	720
Total	**2,583**	3,764

The fair value of collaterals, based on latest independent appraisals, held against impaired Ijara Mawsofa Fi Athemmah receivables as at 31 December was SR 4.57 million (2017: not applicable).

(SR'000)

8 IJARA MAWSOFA FI ATHEMMAH RECEIVABLES, NET (CONTINUED)

8.2 The maturity profile of Ijara Mawsofa Fi Athemmah receivables as at 31 December was as follows:

	2018			
	Not later than one year	**Later than one year but not later than five years**	**Later than five years**	**Total**
Ijara Mawsofa Fi Athemmah receivables	**12,608**	**43,780**	**75,476**	**131,864**
Unearned income	**(5,674)**	**(19,515)**	**(26,784)**	**(51,973)**
	6,934	**24,265**	**48,692**	**79,891**
Impairment allowance for credit losses				**(229)**
				79,662

	2017			
	Not later than one year	Later than one year but not later than five years	Later than five years	Total
Ijara Mawsofa Fi Athemmah receivables	18,895	64,528	103,809	187,232
Unearned income	(7,710)	(25,330)	(36,229)	(69,269)
	11,185	39,198	67,580	117,963
Impairment allowance for credit losses				(1,267)
				116,696

8.3 The table below stratifies credit exposures from Ijara Mawsofa Fi Athemmah receivables into ranges of receivable to value ratio. Ijara Mawsofa Fi Athemmah 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.

	2018	2017
Less than 50%	**1,545**	27,845
51-70%	**19,938**	50,877
71-85%	**33,649**	39,241
86-100%	**24,759**	-
Total Exposure	**79,891**	117,963

(SR'000)

9 PREPAYMENTS AND OTHER ASSETS

	2018	2017
Other real estate assets (note 9.1)	**84,951**	88,237
Receivable from joint ventures	**4,784**	8,540
Accrued profit on derivatives	**965**	1,295
Prepaid rent	**3,619**	669
Value added tax receivable	**4,613**	-
Others	**8,053**	4,477
	106,985	103,218

9.1 During the current year, one joint venture was liquidated (note 10). All the underlying assets of respective joint ventures were settled in kind between the joint ventures partners proportionate to their respective share. The Company considered these assets as held for sale and are initially stated at the lower of cost and the fair value of the related properties, less any costs to sell.

10 INVESTMENTS IN JOINT VENTURES

The Company has joint control and ownership interest varying between 40% to 90% with different joint arrangements. The joint arrangements are structured as a separate vehicle and the Company has a residual interest in its net assets. Accordingly, the Company has classified its interest as a joint venture, which is equity-accounted. The Company does not consolidate the results of the JVs as it shares control and equal representation on the Board with the co-venturers.

No new investments in excess of original commitments have been made by the Company after 7 November 2014 to comply with the real estate financing laws. The existing portfolio will remain in the name of the Company till its maturity and disbursements for commitments in ongoing operations will continue to be booked by the Company.

In accordance with the agreements under which JVs are established, the Company and the co-ventures have agreed to make additional contributions in proportion to their interests to make up any losses, if required.

(SR'000)

10 INVESTMENTS IN JOINT VENTURES (CONTINUED)

a) Movement in investment in Joint Ventures is as follows:

2018	Location	% of shareholding	Opening balance	Additions	Share in net income / (loss)	Distributions	Closing balance
a) Dar wa Emar, Olaya	AlOlaya, AlKhobar	50	11,218	-	-	(11,218)	-
b) Dar wa Emar, Rahba	AlRahba, AlKhobar	90	9,280	-	(240)	(3,990)	5,050
c) AbdulAziz Al Qassim, Malga III	Malga, Riyadh	40	9,032	1,235	-	(7,395)	2,872
			29,530	1,235	(240)	(22,603)	7,922

2017	Location	% of shareholding	Opening balance	Additions	Share in net income / (loss)	Distributions	Closing balance
a) Dar wa Emar, Olaya	AlOlaya, AlKhobar	50	39,725	5,072	4,609	(38,188)	11,218
b) Dar wa Emar, Rahba	AlRahba, AlKhobar	90	17,488	-	650	(8,858)	9,280
c) AbdulAziz Al Qassim, Malga III	Malga, Riyadh	40	27,482	718	3,135	(22,303)	9,032
d) Tharaa Real Estate Investment	AlMarooj, AlKhobar	50	8,595	46,440	-	(55,035)	-
e) Al Masharia Al Oula	Al Yasmin District, Riyadh	60	14,125	-	517	(14,642)	-
f) Saudi Kyan III	AlNawras, AlKhobar	60	5,409	-	-	(5,409)	-
			112,824	52,230	8,911	(144,435)	29,530

(SR'000)

10 INVESTMENTS IN JOINT VENTURES (CONTINUED)

b) The Company has accounted for the joint ventures based on the latest available accounts of the JVs. The financial statements of JVs are prepared for the same reporting period as that of the Company, using consistent accounting policies. The following table illustrates summarised financial information of the Company's outstanding investment in joint ventures:

	31 December 2018						For the year ended 31 December 2018	
	Company's effective holding	**Current assets**	**Non-current assets**	**Current liabilities**	**Non-current liabilities**	**Equity**	**Revenue**	**Net Profit / (loss)**
a) Dar wa Emar, Rahba	**90%**	**5,731**	-	-	-	**5,611**	**4,100**	**(266)**
b) AbdulAziz Al Qassim, Malga III	**40%**	**7,179**	-	-	-	**7,179**	**15,400**	-
		12,910	-	-	-	**12,790**	**19,500**	**(266)**

	31 December 2017						For the year ended 31 December 2017	
	Company's effective holding	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Equity	Revenue	Net Profit / (loss)
a) Dar wa Emar, Olaya	50%	22,436	-	-	-	22,436	58,237	9,218
b) Dar wa Emar, Rahba	90%	10,311	-	-	-	10,311	14,256	722
c) AbdulAziz Al Qassim, Malga III	40%	22,580	-	-	-	22,580	60,505	7,839
		55,327	-	-	-	55,327	132,998	17,779

(SR'000)

11 PROPERTY AND EQUIPMENT, NET

2018	Land	Leasehold improvements	Office equipment	Furniture and fixtures	Information technology equipment	Work in Progress**	Total
Cost:							
Balance at beginning of the year	18,655	3,664	723	2,486	18,574	7,074	51,176
Additions	-	495	20	72	551	2,944	4,082
Write off	-	(776)	-	(690)	(325)	-	(1,791)
Balance at end of the year	18,655	3,382	743	1,868	18,800	10,018	53,467
Accumulated depreciation:							
Balance at beginning of the year	-	2,247	494	2,069	14,562	-	19,372
Charge for the year	-	386	68	137	1,664	-	2,255
Reversal due to write off	-	(398)	-	(347)	(257)	-	(1,003)
Balance at end of the year	-	2,235	562	1,859	15,969	-	20,624
Impairment loss*	5,005	-	-	-	-	-	5,005
Net book value: At 31 December 2018	13,650	1,148	181	10	2,831	10,018	27,838

*During the year, the Company recognized an impairment loss of SR 2.1 million (year ended 31 December 2017: SR 2.9 million) on land, as a difference between the recoverable amount and carrying value.

**Work in progress as at 31 December 2018 represents mainly the amount paid for information technology system enhancement.

Property and equipment have been written off because the Company is moving to a new head office.

(SR'000)

11 PROPERTY AND EQUIPMENT NET (CONTINUED)

2017	Land	Leasehold improvements	Office equipment	Furniture and fixtures	Information technology equipment	Work in Progress**	Total
Cost:							
Balance at beginning of the year	18,655	3,664	643	2,450	17,195	3,893	46,500
Additions	-	-	80	36	1,379	3,181	4,676
Balance at end of the year	18,655	3,664	723	2,486	18,574	7,074	51,176
Accumulated depreciation:							
Balance at beginning of the year	-	1,886	424	1,941	13,067	-	17,318
Charge for the year	-	361	70	128	1,495	-	2,054
Balance at end of the year	-	2,247	494	2,069	14,562	-	19,372
Impairment loss	2,905	-	-	-	-	-	2,905
Net book value: At 31 December 2017	15,750	1,417	229	417	4,012	7,074	28,899

**Work in progress as at 31 December 2017 represents mainly the amount paid for information technology system enhancement.

(SR'000)

12 ACCRUED EXPENSES AND OTHER LIABILITIES

	2018	2017
Financing to customers (note 12.1)	**21,163**	28,073
Salaries and employee related expenses	**10,205**	13,705
Accrued expenses	**6,330**	7,932
Amount received from Murabaha and Ijara customers (note 12.2)	**8,857**	7,820
Payable to Ministry of Housing	**26,278**	-
Others (note 12.3)	**19,253**	10,782
	92,086	68,312

12.1 Financing to customers arise when the financing arrangement has been agreed with the customer, but the amount is not disbursed due to a normal delay in the transfer of property.

12.2 This majorly represents down payment received from the customers, which is not paid to the seller of the property.

12.3 This includes an amount pertaining to late payment charges accrued from customers equals to SR 14.68 million (2017: SR 8.3 million). In accordance with the Shari'a advisor, late payment charges collected are recognized as other liabilities in the statement of financial position and are paid as charity.

13 DERIVATIVES

As at 31 December 2018, the Company held Profit Rate Swaps ("PRS") of a notional value of SR 100 million (2017: SR 200 million) in order to hedge its exposure to commission rate risks related to long term financing and leasing. The table below shows the fair values of derivative financial instruments, recorded as assets and liabilities:

	Positive fair value of PRSs	**Negative fair value of PRSs**	**Cash flow hedge reserve**
2018	**1,087**	**-**	**1,087**
2017	1,046	(666)	380

14 ZAKAT AND INCOME TAX

a) Charge for the year

	2018	2017
Current zakat (note (b))	**2,481**	2,717
Current income tax (note (c))	**511**	724
	2,992	3,441

(SR'000)

14 ZAKAT AND INCOME TAX (CONTINUED)

b) Zakat

The elements of the Company's zakat base are as follows:

	2018	2017
Shareholders' equity	**906,000**	903,000
Bank borrowings	**1,994,132**	2,072,175
Opening provisions and adjustments	**63,107**	57,791
Book value of property and equipment	**(33,086)**	(16,716)
Net investment in finance lease	**(3,186,568)**	(3,201,594)
Adjusted net asset of the Company	**(256,414)**	(185,344)
Adjusted net income for the year	**99,130**	112,289
Zakat base (higher of adjusted net asset or net income)	**99,130**	112,289

The differences between the financial and zakat results are mainly due to additional provisions and differences in depreciation rates in the calculation of zakatable income.

Zakat is calculated based on the zakat base for the year ended 31 December, attributable to the ultimate Saudi and GCC shareholders as follows:

	2018	2017
Zakat base attributable to Saudi and GCC shareholders (2018: 97.4% and 2017: 96.8%)	**96,577**	108,683
Zakat @ 2.5%	**2,414**	2,717

The movement in zakat provision for the year ended 31 December is as follows:

	2018	2017
As at 1 January	**2,937**	3,163
Charge for the year	**2,414**	2,717
Additional provision (note 14 d)	**33,541**	-
Payment made during the year	**(2,745)**	(2,943)
As at 31 December	**36,147**	2,937

c) Income tax

Income tax charge for the year ended 31 December has been calculated based on adjusted net income as follows:

	2018	2017
Adjusted net income	**99,130**	112,289
Adjusted net income attributable to Non-Saudi shareholders (2018: 2.6% and 2017: 3.22%)	**2,554**	3,618
Income tax payable @ 20%	**511**	724

The movement in income tax provision for the year ended 31 December is as follows:

	2018	2017
As at 1 January	**785**	840
Charge for the year	**511**	724
Payment made during the year	**(653)**	(779)
As at 31 December	**643**	785

(SR'000)

14 ZAKAT AND INCOME TAX (CONTINUED)

d) Zakat and income tax assessment status

The Company has submitted its zakat and income tax declarations for the years ended 31 December 2007 through 2017 with the General Authority of Zakat and Income Tax ("GAZT").

The GAZT issued assessments for the years 2007 to 2012 and claimed additional zakat and income tax and delayed penalty differences of SR 83,906,621. The differences mainly resulted from the non-deduction of the Ijara, Murabaha, the investment in joint ventures, accumulated losses and bonus. The case was transferred to the Higher Appeal Committee (HAC).

The GAZT issued assessment for the years 2013 to 2016 and claimed additional zakat, income tax and delayed penalty differences of SR 151,350,841. The differences mainly resulted from the non-deduction of the Ijara, Murabaha, the investment in joint ventures and loans. The case is still under review at the GAZT.

For 2017 and 2018, while calculating the zakat liability, the Company has not considered the disallowances of deduction of net investment in finance leases. If the Company has considered the above disallowances of deduction, the Zakat liability will be higher by SR 55 million and SR 48 million respectively.

The Company believes it is unlikely that the above position of GAZT will be upheld, because the issue of deduction of net investment in finance leases has industry wide implications for leasing, mortgage finance business and any other finance related business where the main assets are receivables; however, based on the recent ongoing discussion with regulators, the Company has recorded SR 33.5 million as its best estimate of additional zakat liability.

15 BANK BORROWINGS

These represent amounts borrowed from local commercial banks under Islamic borrowings approved by Sharia Committee. These facilities carry borrowing costs at profit rates ranging from 3 months to 3 years SIBOR plus spread with maturity ranging from 1 month to 5 years and are secured by the assignment of proceeds from instalment receivables. Under the terms of the financing arrangement, the Company adhered to certain financial and non-financial covenants. As at 31 December, a breakdown of bank borrowings by maturity was as follows:

	2018	2017
Current portion	**809,736**	861,375
Non-current portion	**1,184,396**	1,210,800
	1,994,132	2,072,175

15.1 The movement in bank borrowings for the year ended 31 December was as follows:

	2018	2017
Balance at beginning of the year	**2,072,175**	2,102,270
Borrowings made during the year	**1,086,100**	817,500
Principal repayments during the year	**(1,164,513)**	(846,331)
Profit accrued during the year	**88,087**	91,755
Profit repayments during the year	**(87,717)**	(93,019)
Balance at end of the year	**1,994,132**	2,072,175

(SR'000)

16 EMPLOYEE BENEFITS

The following tables summarise the components of employee benefits recognised in the statements of financial position, profit or loss and other comprehensive income.

a) Amount recognised in the statement of financial position as at 31 December:

	2018	2017
Present value of defined benefit obligation	**13,618**	12,909

b) Benefit expense (recognised in the statement of profit or loss):

	For the year ended 31 December	
	2018	2017
Current service cost	**2,082**	4,123
Interest cost	**413**	386
Benefit expense	**2,495**	4,509

c) Movement in the present value of defined benefit obligation:

	For the year ended 31 December	
	2018	2017
Present value of defined benefit obligation at beginning of the year	**12,909**	8,834
Charge recognised in the statement of profit or loss:		
Current service cost	**2,082**	4,123
Finance cost	**413**	386
	2,495	4,509
Actuarial gain / (loss) on defined benefit plan recognized in the statement of other comprehensive income	**929**	(268)
Benefits paid	**(2,715)**	(166)
Present value of defined benefit obligation at end of the year	**13,618**	12,909

d) Principal actuarial assumptions:

	2018	2017
Discount rate	**4.6%**	3.1%
Salary increase rate	**4.6%**	3.1%

e) Sensitivity analysis

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

	31 December 2018		31 December 2017	
	Increase	**Decrease**	Increase	Decrease
Discount rate (0.5% movement)	**(675)**	**731**	(595)	644
Future salary growth (0.5% movement)	**750**	**(699)**	662	(618)

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

17 SHARE CAPITAL

As at 31 December 2018, the Company's authorised, issued and paid-up share capital was SR 906 million (31 December 2017: SR 903 million) divided into 90.6 million shares (31 December 2017: 90.3 million shares) with a nominal value of SR 10 each.

In accordance with the approval in Annual General Meeting held on 07 May 2018, the Company issued 300,000 shares at par value to its employees as an incentive bonus.

18 STATUTORY RESERVE

In accordance with the Company's By-laws and the Regulation for Companies in Saudi Arabia, 10% of the annual net income is transferred to statutory reserve until such reserve equals 30% of the Company's share capital. This reserve is not available for distribution to the shareholders. During the year, the Company has transferred SR 9.8 million (2017: SR 10.3 million) to statutory reserce..

19 DIVIDENDS

During the current year, the shareholders have approved, declared and paid dividend of SR 67.7 million (for the year ended 31 December 2017: SR 67.5 million).

20 EARNINGS PER SHARE

The basic and diluted earnings per share has been computed by dividing profit for the year by the weighted number of shares outstanding during the year.

	2018	2017
Profit for the year (SR '000)	**97,613**	103,520
Weighted average number of ordinary shares (in thousands)	**90,496**	90,188
Basic and diluted earnings per share (SR)	**1.08**	1.14

21 GENERAL AND ADMINISTRATIVE EXPENSES

	For the year ended 31 December	
	2018	2017
Salaries and employee related cost	**49,184**	49,863
Rent	**3,241**	2,899
Professional fee	**3,134**	2,043
Board fee and expenses	**2,461**	3,424
Information Technology expenses	**2,259**	2,082
Travelling expenses	**1,122**	879
Communication	**756**	798
Maintenance expenses	**687**	552
Others	**3,958**	2,506
	66,802	65,046

22 SELLING AND MARKETING EXPENSES

	For the year ended 31 December	
	2018	2017
Marketing expenses	**3,200**	3,021
Insurance	**2,545**	3,051
Outsourcing costs	**2,463**	2,883
	8,208	8,955

(SR'000)

23 RELATED PARTY TRANSACTIONS AND BALANCES

The related parties of the Company include the shareholders and their affiliated entities, Subsidiary and certain key management personnel. In the ordinary course of its activities, the Company transacts business with its related parties on mutually agreed terms.

In addition to the related party transactions and balances disclosed elsewhere in these financial statements, significant transactions and balances arising from transactions with related parties are as follows:

Nature of transactions	Name of related party and relationship	Amounts of transactions	
		2018	2017
Borrowing facility cost and charges	The Saudi Investment Bank (shareholder)	**23,529**	27,164
Rent expense	Saudi Orix Leasing (affiliate)	**1,592**	1,632
Security and other expenses	Saudi Orix Leasing (affiliate)	**210**	188
Arrangement fee	Alistithmar Capital (affiliate)	**268**	500
PRS (profit) cost received / paid	The Saudi Investment Bank (shareholder)	**(157)**	55
Salaries and benefits	Key management personnel*	**13,390**	9,557
Board meeting fees and other expenses	Board members	**2,461**	3,424

* Key management personnel represent the chief executive and his direct reports.

Nature of balances and names of related parties	Relationship	Balances	
		2018	2017
Bank balances:			
The Saudi Investment Bank	Shareholder	**7,809**	25,408
Due from related parties:			
Tharaa Real Estate Investment	Joint venture	**3,009**	-
Alistithmar Capital	Affiliate	**1,775**	1,507
Dar Wa Emar – Olaya	Joint venture	**-**	7,033
Bank borrowings:			
The Saudi Investment Bank	Shareholder	**441,740**	596,117
Notional amount of Profit Rate Swaps (PRS):			
The Saudi Investment Bank	Shareholder	**50,000**	50,000
Financing and advances:			
Key management personnel	Key management	**4,005**	3,241
Available-for-sale investment:			
SAIB Saraya Tower Real Estate Development Fund	Affiliate	**-**	12,887
Investments at FVOCI:			
SAIB Saraya Tower Real Estate Development Fund	Affiliate	**11,591**	-
Other receivables:			
Amlak International For Real Estate Development	Subsidiary	**305**	1
Receivable against initial public offering	Shareholders	**3,281**	-
Prepaid rent:			
Saudi Orix Leasing	Affiliate	**398**	398
Board meeting and other expenses payable			
Board members	Board members	**1,276**	2,776

24 FINANCIAL RISK MANAGEMENT

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles. The Board has appointed the Board Risk Management Committee, which has the responsibility to monitor the overall risk process within the Company.

The Risk Management Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits.

The Risk Management Committee is responsible for managing risk decisions and monitoring on risk levels and reports on a quarterly basis to the Board Risk Management Committee.

1) Credit risk

The Company manages exposure to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in lending activities that lead to Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables.

The Company assesses the probability of default of counterparties using internal rating mechanism. This is done for corporate and high net worth individuals only.

The Company attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Company's risk management policies are designed to identify, to set appropriate risk limits, and to monitor the risks and adherence to limits. Actual exposures against limits are monitored on regularly basis.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographical location.

The Company seeks to manage its credit risk exposure through diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or business.

Management monitors the market value of collateral obtained during its review of the adequacy of the impairment allowance for credit losses. The Company regularly reviews its risk management policies and systems to reflect changes in markets products and emerging best practice.

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24 FINANCIAL RISK MANAGEMENT (CONTINUED)

The carrying amount of financial assets represents the maximum credit exposure. The exposure to credit risk at the reporting date was on account of:

	2018	2017
Cash and cash equivalents	**15,940**	29,611
Murabaha receivables, net	**108,256**	260,749
Ijara receivables, net	**2,902,822**	2,744,421
Ijara Mawsofa Fi Athemmah receivables, net	**79,662**	116,696
Receivable from joint ventures	**4,784**	8,540
Accrued profit on derivatives	**965**	1,295
	3,112,429	3,161,312

a) Credit quality analysis

The following table sets out information about the credit quality of financing and leasing financial assets as at 31 December. The amounts in the table represent gross carrying amounts.

2018:

	Stage 1 - 12 month ECL		
Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables	**Gross exposure**	**Impairment allowance for credit losses**	**Net exposure**
Investment grades	523,275	2,399	520,876
Non-investment grades	663,596	4,648	658,948
Unrated	784,392	1,631	782,761
Total	**1,971,263**	**8,678**	**1,962,585**

	Stage 2 - Lifetime ECL (not credit impaired)		
Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables	**Gross exposure**	**Impairment allowance for credit losses**	**Net exposure**
Non-investment grades	615,739	14,588	601,151
Unrated	173,397	1,223	172,174
Total	**789,136**	**15,811**	**773,325**

	Stage 3 - Lifetime ECL (credit impaired)		
Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables	**Gross exposure**	**Impairment allowance for credit losses**	**Net exposure**
Non-investment grades	106,495	17,280	89,215
Non-performing grades	203,936	42,468	161,469
Unrated	29,148	3,669	25,479
Total	**339,579**	**63,417**	**276,163**

2017:

Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables	Gross exposure
Investment grades	641,346
Non-investment grades	1,284,711
Non-performing grades	191,638
Unrated	1,003,070
Total	3,120,765

24 FINANCIAL RISK MANAGEMENT (CONTINUED)

b. Amounts arising from ECL – Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and expert credit assessment.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the 12 month probability of default (PD) as at the reporting date; with
- the 12 month probability of default (PD) at the time of initial recognition of the exposure

Stage 1: When receivables are first recognised, the Company recognises an allowance based on 12months ECLs. Stage 1 receivables also include facilities where the credit risk has improved and the receivables has been reclassified from Stage 2.

Stage 2: When a receivables has shown a significant increase in credit risk since origination, the Company records an allowance for the Lifetime ECL. Stage 2 receivables also include facilities, where the credit risk has improved and the receivables has been reclassified from Stage 3.

Stage 3: Receivables considered credit-impaired. The Company records an allowance for the Lifetime ECL.

POCI: Purchased or originated credit impaired (POCI) assets are receivbales that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

i) Credit risk grades

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

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

Each corporate exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. . The monitoring typically involves use of the following data.

24 FINANCIAL RISK MANAGEMENT (CONTINUED)

Corporate exposures	All exposures
• Information obtained during annual review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality management, and senior management changes. • Actual and expected significant changes in business activities of the borrower.	• Payment record – this includes overdue status. • Requests for and granting of forbearance. • Existing and forecast changes in business, financial and economic conditions.

ii) Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Company collects performance and default information about its credit risk exposures separately for the corporate and retail portfolios.

The Company analyses the relationships between its historical default rates and macro-economic factors. For both the corporate and retail portfolios, the key macro-economic indicator is oil price. The Company has formulated a view of the future direction of relevant economic variables for three different scenarios.

iii) Determining whether credit risk has increased significantly

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

The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Company's quantitative modelling, the remaining lifetime PD is determined to have increased significantly.

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

For the corporate and high net worth individual portfolio, apart from the increase in PD (2 rating downgrade or 6 sub-notch down) criteria and customers whose receivables are restructured due to deterioration in credit worthiness, as a backstop, the Company considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due.

For retails loans, apart from the customers whose receivables are restructured due to deterioration in credit worthiness, as a backstop, the Company considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due.

The Company monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:
- the criteria are capable of identifying significant increases in credit risk before an exposure is in default; and
- the criteria do not align with the point in time when an asset becomes 30 days past due;

24 FINANCIAL RISK MANAGEMENT (CONTINUED)

iv) Modified financial assets

The contractual terms of a debt instrument may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing debt instrument whose terms have been modified may be derecognized and the renegotiated debt instrument recognized as a new debt instrument at fair value in accordance with the accounting policy.

When the terms of a financial asset are modified and the modification does not result in de-recognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- the risk of default at the reporting date (based on modified contractual terms); and
- the risk of default occurring at initial recognition (based on original, unmodified contractual terms)

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

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of recievable covenants. Both retail and corporate receivabels are subject to the forbearance policy. The Company Risk Committee regularly reviews reports on forbearance activities.

For financial assets modified as part of the Company's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Company's ability to collect profit and principal and the Company's previous experience of similar forbearance action. As part of this process, the Company evaluates the borrower's payment performance against the modified contractual terms and considers various behavioral indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired /in default. A customer needs to demonstrate consistently good payment behavior over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

v) Incorporation of forward looking information

The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from economic experts and consideration of a variety of forecast information, the Company formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by International Monetary Fund.

The base case represents a most-likely outcome and is aligned with information used by the Company for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes.

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24 FINANCIAL RISK MANAGEMENT (CONTINUED)

The Company has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used as at the yearend included the following ranges of key indicator:

Economic Indicators	31 December 2018	1 January 2018
Oil prices	**Upside 15%** **Base case 70%** **Downside 15%**	Upside 15% Base case 70% Downside 15%

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 7 years.

vi) Definition of 'Default'

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to Company in full;
- the borrower is classified in default category as per internal credit grade (applicable for corporate and high net woth individuals); or
- the borrower is past due more than 90 days on any material credit obligation to Company.

In assessing whether a borrower is in default the Company considers indicators that are:
- qualitative- e.g. breaches of covenant;
- quantitative- e.g. overdue status and non-payment on another obligation of the same issuer to Company;

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

vii) Measurement of ECL

The key inputs into the measurement of ECL are the following risk estimates:
i. probability of default (PD);
ii. loss given default (LGD); and
iii exposure at default (EAD).

PD estimates are estimates at a certain date, which are calculated, based on statistical rating mechanism, and assessed using rating grades tailored for the corporate and high net worth individuals portfolios. These rating mechanisms are based on both quantitative and qualitative factors. If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD. Further the PD term structure is estimated considering the contractual maturities of exposures

LGD is the magnitude of the likely loss if there is a default. Company estimates LGD based on the history of recovery rates of claims against defaulted counterparties. LGD estimation considers the structure, any sale of collateral, and recovery costs of any collateral that is integral to the financial asset. Due to sparse historical defaults, the quantitative LGD estimates has been adjusted for qualitative overlays based on Company's empirical loss experience and is subject to back testing.

EAD represents the expected exposure in the event of a default. Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount.

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24 FINANCIAL RISK MANAGEMENT (CONTINUED)

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, Company measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk. The maximum contractual period extends to the date at which Company has the right to require repayment.

For portfolios in respect of which Company has limited historical data or depending on the materiality of portfolio, qualitative adjustment is used to supplement any internally available data.

c. Loss allowance

The following table shows reconciliations from the opening to the closing balance of the loss allowance based on customer categories.

Corporate	12 Month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Balance at 1 January, 2018	7,303	5,733	67,164	80,200
Transfer from 12 Month ECL	(1,962)	1,765	197	-
Transfer from Lifetime ECL (not credit impaired)	1,139	(1,716)	577	-
Transfer from Lifetime ECL (credit impaired)	-	12,371	(12,371)	-
Net re-measurement of loss allowance	(1,961)	(9,183)	5,249	(5,895)
Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables that have been derecognized during the year	(923)	(262)	(3,665)	(4,850)
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the period	3,139	4,295	-	7,434
Balance at 31 December, 2018	**6,735**	**13,003**	**57,151**	**76,889**
High net worth individuals				
Balance at 1 January, 2018	451	405	3,510	4,366
Transfer from 12 Month ECL	(87)	87	-	-
Transfer from Lifetime ECL (not credit impaired)	10	(68)	58	-
Transfer from Lifetime ECL (credit impaired)	-	2,603	(2,603)	-
Net re-measurement of loss allowance	(94)	(1,603)	1,632	(65)
Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables that have been derecognized during the period	(105)	(19)	-	(124)
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the period	137	180	-	317
Balance at 31 December, 2018	**312**	**1,585**	**2,597**	**4,494**
Retail				
Balance at 1 January, 2018	1,667	1,419	352	3,438
Transfer from 12 Month ECL	(162)	157	5	-
Transfer from Lifetime ECL (not credit impaired)	406	(571)	165	-
Transfer from Lifetime ECL (credit impaired)	-	89	(89)	-
Net re-measurement of loss allowance	(478)	37	3,271	2,830
Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables that have been derecognized during the period	(274)	(129)	(50)	(453)
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the period	472	221	15	708
Balance at 31 December, 2018	**1,631**	**1,223**	**3,669**	**6,523**

(SR'000)

24 FINANCIAL RISK MANAGEMENT (CONTINUED)

	2017		
	Murabaha receivables	Ijara receivables	Ijara Mawsofa Fi Athemmah receivables
Balance at the beginning of the year	7,367	39,705	1,885
(Reversal) / provided during the year, net	(4,594)	6,453	(618)
Total	2,773	46,158	1,267

d. Collateral

The company in the ordinary course of lending activities hold collaterals as security to mitigate credit risk in the Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables. These collaterals mostly include real estate property and promissory notes. The collaterals are managed against relevant exposures at their net realizable values. For financial assets that are credit impaired at the reporting period, quantitative information about the collateral held as security is needed to the extent that such collateral mitigates credit risk.

2) Market rate risk

a) 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 is the Company's borrowings and financing activities, where fluctuations in profit rates, if any, are reflected in the results of operations.

The following table depicts the sensitivity to a reasonable possible change in profit rates, with other variables held constant, on the Company's statement of profit or loss. The sensitivity of the income is the effect of the assumed changes in profit rates on the net commission income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at yearend. All the exposures are monitored and analysed in major currency concentrations and relevant sensitivities are disclosed in SR thousands.

	2018		2017	
	Change in basis points	**Impact on net profit**	Change in basis points	Impact on net profit
Saudi Riyals	**+100**	**8,415**	+100	7,670
Saudi Riyals	**-100**	**(8,415)**	-100	(7,670)

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

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24 FINANCIAL RISK MANAGEMENT (CONTINUED)

The table below summarizes the Company's exposure to profit rate risks:

	Profit bearing					
31 December 2018	**Within 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Non-profit bearing**	**Total**
Assets						
Cash and cash equivalents	-	-	-	-	15,965	**15,965**
Investments at FVOCI	-	-	-	-	12,484	**12,484**
Murabaha receivables, net	10,784	33,581	60,467	3,424	-	**108,256**
Ijara receivables, net	463,296	1,099,035	1,217,080	123,411	-	**2,902,822**
Ijara Mawsofa Fi Athemmah receivables, net	24,730	54,932	-	-	-	**79,662**
Positive fair value of derivatives	-	-	-	-	1,087	**1,087**
Total assets	498,810	1,187,548	1,277,547	126,835	29,536	**3,120,276**
Liabilities						
Bank borrowings	1,530,360	372,814	90,958	-	-	**1,994,132**
Total liabilities	1,530,360	372,814	90,958	-	-	**1,994,132**
Gap	**(1,031,550)**	**814,734**	**1,186,589**	**126,835**	**29,536**	**1,126,144**
Cumulative Gap	**(1,031,550)**	**(216,816)**	**969,773**	**1,096,608**	**1,126,144**	

The table below summarizes the Company's exposure to profit rate risks

	Profit bearing					
31 December 2017	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-profit bearing	Total
Assets				-		
Cash and cash equivalents	-	-	-	-	29,634	29,634
Available-for-sale investments	-	-	-	-	12,887	12,887
Murabaha receivables, net	47,097	87,570	125,294	788	-	260,749
Ijara receivables, net	490,595	1,040,428	1,133,679	79,719	-	2,744,421
Ijara Mawsofa Fi Athemmah receivables, net	45,251	71,445	-	-	-	116,696
Positive fair value of derivatives	-	-	-	-	1,046	1,046
	582,943	1,199,443	1,258,973	80,507	43,567	3,165,433
Liabilities						
Negative fair value of derivatives	-	-	-	-	666	666
Bank borrowings	1,451,676	416,814	203,685	-	-	2,072,175
Total Liabilities	1,451,676	416,814	203,685	-	666	2,072,841
Gap	(868,733)	782,629	1,055,288	80,507	42,901	1,092,592
Cumulative Gap	(868,733)	(86,104)	969,184	1,049,691	1,092,592	

(SR'000)

24 FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company is subject to fluctuations in foreign exchange rates in the normal course of its business. The Company did not undertake significant transactions in currencies other than Saudi Riyals and US Dollars. And as US Dollars is pegged with Saudi Riyals; therefore, Company does not have any currency risk in these transactions.

3) Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately. Management monitors the maturity profile to ensure that adequate liquidity is maintained.

a) Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Company's financial liabilities at year ends based on contractual undiscounted repayment obligations. The contractual maturities of financial liabilities have been determined based on the remaining period at the statement of financial position date to the contractual maturity date.

	Fixed maturity					
2018	**Within 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**No fixed maturity**	**Total**
Other liabilities	42,080	39,884	3,794	-	-	**85,758**
Bank borrowings	246,140	592,930	1,186,584	-	-	**2,025,654**
Total	**288,220**	**632,814**	**1,190,378**	**-**	**-**	**2,111,412**

	Fixed maturity					
2017	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
Other liabilities	41,532	18,848	-	-	-	60,380
Bank borrowings	233,888	659,115	1,227,446	-	-	2,120,449
Derivatives	-	-	17,365	-	-	17,365
Total	275,420	677,963	1,244,811	-	-	2,198,194

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24 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

	Fixed maturity					
2018	**Within 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**No fixed maturity**	**Total**
Assets						
Cash and cash equivalents	-	-	-	-	15,965	**15,965**
Investments at FVOCI	-	-	11,591	-	893	**12,484**
Murabaha receivables, net	10,784	33,581	60,467	3,424	-	**108,256**
Ijara receivables, net	209,087	548,136	1,523,132	622,466	-	**2,902,822**
Ijara Mawsofa Fi Athemmah receivables, net	1,742	5,172	24,195	48,553	-	**79,662**
Positive fair value of derivatives	-	-	1,087	-	-	**1,087**
Prepayments and other assets	29,664	75,968	1,048	305	-	**106,985**
Investment in joint ventures	3,961	3,961	-	-	-	**7,922**
Property and equipment	480	1,440	9,534	2,734	13,650	**27,838**
Total assets	**255,718**	**668,258**	**1,631,054**	**677,482**	**30,508**	**3,263,020**
Liabilities						
Accrued expenses and other liabilities	45,243	43,049	3,794	-	-	**92,086**
Zakat and income tax payable	-	3,249	-	-	33,541	**36,790**
Bank borrowings	231,004	578,732	1,184,396	-	-	**1,994,132**
Employees benefits	-	-	-	-	13,618	**13,618**
Total liabilities	**276,247**	**625,030**	**1,188,190**	**-**	**47,159**	**2,136,626**

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24 FINANCIAL RISK MANAGEMENT (CONTINUED)

	Fixed maturity					
2017	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and cash equivalents	-	-	-	-	29,634	29,634
Available-for-sale investment	-	-	12,887	-	-	12,887
Murabaha receivables, net	47,097	87,570	125,294	788	-	260,749
Ijara receivables, net	195,176	533,918	1,474,228	541,099	-	2,744,421
Ijara Mawsofa Fi Athemmah receivables, net	3,017	8,052	38,779	66,848	-	116,696
Positive fair value of derivatives	-	-	1,046	-	-	1,046
Prepayments and other assets	25,099	76,033	2,086	-	-	103,218
Investment in joint ventures	11,960	17,570	-	-	-	29,530
Property and equipment	426	1,278	8,858	2,587	15,750	28,899
Total assets	282,775	724,421	1,663,178	611,322	45,384	3,327,080
Liabilities						
Accrued expenses and other liabilities	45,498	22,814	-	-	-	68,312
Negative fair value of derivatives	-	-	666	-	-	666
Zakat and income tax payable	-	3,722	-	-	-	3,722
Bank borrowings	224,618	636,757	1,210,800	-	-	2,072,175
Employees benefits	-	-	-	-	12,909	12,909
Total liabilities	270,116	663,293	1,211,466	-	12,909	2,157,784

(SR'000)

25 FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial assets consist of cash and cash equivalents, investments at FVOCI, derivatives, Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivable and receivable from joint ventures. Financial liabilities consist of bank borrowings, payables and derivatives.

The following table shows the carrying amount and fair values of financial assets and financial liabilities where fair value is different from carrying value or where the financial assets and liabilities are recorded at fair value, including their levels in the fair value hierarchy.

		Fair value			
2018	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets:					
Murabaha receivables, net	**113,466**	**-**	**-**	**93,917**	**93,917**
Investments at FVOCI	**12,484**	**-**	**-**	**12,484**	**12,484**
Positive fair value of derivatives	**1,087**	**-**	**1,087**	**-**	**1,087**

		Fair value			
2017	Carrying value	Level 1	Level 2	Level 3	Total
Financial assets:					
Murabaha receivables, net	263,522	-	-	224,611	224,611
Available-for-sale investment	12,887	-	-	12,887	12,887
Positive fair value of derivatives	1,046	-	1,046	-	1,046
Financial liabilities:					
Negative fair value of derivatives	666	-	666	-	666

The valuation of Murabaha Receivables is estimated using contractual cash flows discounted at latest variable yield, which is the contracted profit rate for recent transactions. Input into the discounted cash flow techniques includes Saudi Inter Bank Offer rates (SIBOR), contractual cash flows and primary origination spreads.

The fair value of Ijara receivables, Ijara Mawsofa Fi Athemmah receivables and bank borrowings, is approximate to carrying amount as the entire financing portfolio and borrowings are floating rate and have classified as level 3.

There have been no transfers to and from Level 3 during the year.

26 CAPITAL ADEQUACY

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain a strong capital base. Capital adequacy ratios as monitored and measured by the management below measure capital adequacy by comparing the Company's eligible capital with its statement of financial position, commitments and notional amount of derivatives, if any, at a weighted amount determined by management to reflect their relative risk.

	2018		2017	
	Total capital ratio %	**Tier I capital ratio %**	Total capital ratio %	Tier I capital ratio %
Capital adequacy ratio	**44.46**	**44.43**	44.02	43.97

(SR'000)

27 COMMITMENTS AND CONTINGENCIES

The Company has facilities approved but not utilised, indicative offers issued which are under consideration of the customers as of the reporting date which have the potential to convert into financing amounting to SR 96 million (31 December 2017: SR 287 million).

The Company has outstanding guarantee of SR 82.9 million (31 December 2017: SR 82.9 million) submitted in favour of GAZT for appeal filled by the Company.

The Company is committed to investment in joint ventures of nil amount (31 December 2017: SR 5.2 million).

The future minimum lease payments under non-cancellable operating leases where the Company is the lessee are as follows:

	2018	2017
Within 1 year	**3,095**	659
After 1 year, but not more than 5 years	**14,598**	909
More than 5 years	**12,856**	-
	30,549	1,568

28 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 comprehensive income belongs to the real estate financing segment.

For management purposes, the Company is organised into the following primary business segments:

Retail
These represents finance products granted to small and medium sized businesses and individuals.

Corporate
These represents financing products granted to corporate, high net worth individuals and institutional customers. Investments in joint ventures are managed by the Corporate segment.

Head office
Head office is responsible for managing the surplus liquidity of the Company through short term market placements. It also provides support services to the business functions.

The Company's total assets and liabilities at 31 December 2018 and 2017 and its total operating income, expenses and net income for the years then ended are as follows:

(SR'000)

28 SEGMENT INFORMATION (CONTINUED)

	Retail	Corporate	Head office	Total
2018				
Revenue	**82,466**	**183,290**	**-**	**265,756**
Expenses	**56,410**	**111,733**	**-**	**168,143**
Segment profit / (loss)	**26,056**	**71,557**	**-**	**97,613**
Total assets	**990,895**	**2,227,236**	**44,889**	**3,263,020**
Total liabilities	**618,583**	**1,404,377**	**113,666**	**2,136,626**
2017				
Revenue	85,584	189,819	-	275,403
Expenses	56,991	115,158	-	172,149
Segment profit / (loss)	28,593	74,661	-	103,254
Total assets	997,182	2,276,319	59,579	3,327,080
Total liabilities	628,086	1,479,982	49,716	2,157,784

29 PROSPECTIVE CHANGE IN INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Company has chosen not to early adopt the following new standards which have been issued but not yet effective for the Company's accounting years beginning on or after 1 January 2019.

Following is a brief on the new IFRS and amendments to IFRS, effective for annual periods beginning on or after 1 January 2019:

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

Transition to IFRS 16
The Company plans to adopt IFRS 16 on modified retrospective basis. The Company elects to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Company will, therefore, not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Company will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Company has leases of certain office equipment (i.e. photocopying machines) that are considered of low value.

During 2018, the Company has performed a detailed impact assessment of IFRS 16. In summary the impact of IFRS 16 adoption is expected to be, as follows:

In the statement of financial position, the assets will increase by around SR 3.2 million; whereas, liabilities will increase by SR 3.5 million.

29 PROSPECTIVE CHANGE IN INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

ii) Amendments to IAS 19: Plan Amendment, Curtailment or Settlement, applicable for the period beginning on or after 1 January 2019. The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period.

For other standards, amendments or interpretations effective for annual periods beginning on or after 1 January 2019, the Company does not anticipate that these will have a material impact on the Company's financial statements.

30 COMPARATIVE INFORMATION

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

1) Processing and appraisal fee income and expense have been shown on gross basis in fee and commission income and fee expense caption.

2) Depreciation has been shown separately from general and administrative expenses.

3) Operating segment note has been updated to bring into conformity with internal reporting basis of current year. This change was due to reporting of certain customers in corporate segment rather than retail. Furthermore, head office expense has been allocated to the two segments.

31 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on 5 Jumada'II 1440H Company (corresponding to 10 February 2019).