AMLAK INTERNATIONAL FOR
REAL ESTATE FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)
For the three-month and nine-month periods ended
30 September 2018
together with the
Independent Auditors' Review Report

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Independent Auditors' Report on Review of Condensed Interim Financial Statements

To the Shareholders
Amlak International for Real Estate Finance Company
A Saudi Closed Joint Stock Company
Riyadh, Kingdom of Saudi Arabia

Introduction

We have reviewed the accompanying 30 September 2018 condensed interim financial statements of Amlak International for Real Estate Finance Company ("the Company"), which comprise:

- the condensed statement of financial position as at 30 September 2018;
- the condensed statement of profit or loss for the three-month and nine-month periods ended 30 September 2018;
- the condensed statement of comprehensive income for the three-month and nine-month periods ended 30 September 2018;
- the condensed statement of changes in equity for the nine-month period ended 30 September 2018;
- the condensed statement of cash flows for the nine-month period ended 30 September 2018; and
- the notes to the condensed interim financial statements.

Management is responsible for the preparation and presentation of these condensed interim financial statements in accordance with IAS 34, 'Interim Financial Reporting' as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax. Our responsibility is to express a conclusion on these condensed interim financial statements based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 September 2018 condensed interim financial statements of Amlak International for Real Estate Finance Company are not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting' as modified by SAMA for the accounting of zakat and income tax.

For KPMG Al Fozan & Partners
Certified Public Accountants

Khalil Ibrahim Al Sedais
License No. 371

Al Riyadh: 15 Safar 1440H
Corresponding to: 24 October 2018

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Certified Public Accountants
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AMLAK INTERNATIONAL FOR REAL ESTATE FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
CONDENSED STATEMENT OF FINANCIAL POSITION
As at 30 September 2018
(SR '000)

	Notes	30 September 2018 (Unaudited)	31 December 2017 (Audited)
ASSETS			
Cash and cash equivalents		**19,567**	29,634
Murabaha receivables, net	5	**141,895**	260,749
Ijara receivables, net	6	**2,718,763**	2,744,421
Ijara mawsofa fi athemmah receivables, net	7	**81,000**	116,696
Available-for-sale investment	3(a)	--	12,887
Investments at fair value through other comprehensive income (FVOCI)		**12,100**	--
Positive fair value of derivatives		**1,582**	1,046
Prepayments and other assets		**105,328**	103,218
Investment in joint ventures	8	**14,934**	29,530
Property and equipment, net		**30,638**	28,899
TOTAL ASSETS		**3,125,807**	3,327,080
LIABILITIES AND SHAREHOLDERS' EQUITY			
Account payables and other accruals	9	**91,499**	68,312
Negative fair value of derivatives		--	666
Zakat and income tax payable	10	**2,584**	3,722
Borrowings	11	**1,883,684**	2,072,175
Employees' end of service benefits		**12,332**	12,909
TOTAL LIABILITIES		**1,990,099**	2,157,784
Share capital	13	**906,000**	903,000
Statutory reserve		**51,654**	51,654
Available-for-sale investment reserve		--	887
Fair value reserve		**(793)**	--
Cash flow hedge reserve		**1,582**	380
Retained earnings		**177,265**	213,375
TOTAL SHAREHOLDERS' EQUITY		**1,135,708**	1,169,296
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**3,125,807**	3,327,080

The attached notes 1 to 23 form part of these condensed interim financial statements

AMLAK INTERNATIONAL FOR REAL ESTATE FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
CONDENSED STATEMENT OF PROFIT OR LOSS (UNAUDITED)
For the three-month and nine-month periods ended 30 September 2018
(SR '000)

	Notes	For the three-month period ended 30 September		For the nine-month period ended 30 September	
		2018	2017	**2018**	2017
INCOME					
Income from Murabaha contracts		**3,633**	6,294	**13,609**	24,750
Income from Ijara contracts		**59,323**	56,281	**173,352**	166,262
Income from Ijara mawsofa fi athemmah contracts		**1,527**	2,001	**5,017**	5,936
Fee income, net		**1,008**	231	**2,234**	1,508
Gross income from Ijara, Murabaha and Ijara mawsofa fi athemmah		**65,491**	64,807	**194,212**	198,456
Borrowing costs		**(21,831)**	(22,290)	**(65,250)**	(67,875)
Net income from Ijara, Murabaha and Ijara mawsofa fi athemmah		**43,660**	42,517	**128,962**	130,581
Other operating income					
Share in net income from joint ventures	8	--	2,570	--	5,618
Other income		--	250	**226**	500
		43,660	45,337	**129,188**	136,699
OPERATING EXPENSES					
General and administrative expenses	15	**(17,949)**	(16,398)	**(51,814)**	(49,523)
Selling and marketing expenses	16	**(2,101)**	(1,916)	**(5,696)**	(7,101)
Impairment charge for credit losses, net		--	(988)	--	(1,598)
PROFIT FOR THE PERIOD		**23,610**	26,035	**71,678**	78,477
Basic and diluted earnings per share (SR)	14	**0.26**	0.29	**0.79**	0.87

The attached notes 1 to 23 form part of these condensed interim financial statements

AMLAK INTERNATIONAL FOR REAL ESTATE FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
CONDENSED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
For the three-month and nine-month periods ended 30 September 2018
(SR '000)

	For the three-month period ended 30 September		For the nine-month period ended 30 September	
	2018	2017	**2018**	2017
PROFIT FOR THE PERIOD	**23,610**	26,035	**71,678**	78,477
OTHER COMPREHENSIVE INCOME / (LOSS)				
Items that may be reclassified to profit or loss in subsequent periods:				
Net movement in cash flow hedges	**328**	(290)	**1,202**	(1,949)
Change in fair value of available-for-sale investment	--	1,322	--	1,899
Items that will not be reclassified to profit or loss in subsequent periods:				
Remeasurement gain on employee benefits	--	--	**(64)**	--
Change in fair value of investments held at FVOCI	--	--	**(1,680)**	--
Total other comprehensive income / (loss)	**328**	1,032	**(542)**	(50)
TOTAL COMPREHENSIVE INCOME	**23,938**	27,067	**71,136**	78,427

The attached notes 1 to 23 form part of these condensed interim financial statements

AMLAK INTERNATIONAL FOR REAL ESTATE FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
CONDENSED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
For the nine-month period ended 30 September 2018
(SR '000)

	Share Capital	Statutory reserve	Available-for-sale investment reserve	Fair value reserve	Cash flow hedge reserve	Retained earnings	Total
Balance at 31 December 2017 – as previously reported (audited)	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)
Restated balance at 1 January 2018	903,000	51,654	--	887	380	175,569	1,131,490
Profit for the period	--	--	--	--	--	71,678	71,678
Other comprehensive (loss) / income	--	--	--	(1,680)	1,202	(64)	(542)
Total comprehensive income	--	--	--	(1,680)	1,202	71,614	71,136
Zakat for the period	--	--	--	--	--	(1,853)	(1,853)
Income tax for the period	--	--	--	--	--	(340)	(340)
Dividend *(note 12)*	--	--	--	--	--	(67,725)	(67,725)
Increase in share capital *(note 13)*	3,000	--	--	--	--	--	3,000
Balance at 30 September 2018 (unaudited)	**906,000**	**51,654**	--	**(793)**	**1,582**	**177,265**	**1,135,708**
Balance at 31 December 2016	900,000	41,329	(1,012)	--	1,836	191,119	1,133,272
Profit for the period	--	--	--	--	--	78,477	78,477
Other comprehensive loss	--	--	1,899	--	(1,949)	--	(50)
Total comprehensive (loss) / income	--	--	1,899	--	(1,949)	78,477	78,427
Zakat for the period	--	--	--	--	--	(1,679)	(1,679)
Income tax for the period	--	--	--	--	--	(522)	(522)
Dividend *(note 12)*	--	--	--	--	--	(67,500)	(67,500)
Increase in share capital	3,000	--	--	--	--	--	3,000
Transfer to statutory reserve	--	(7,848)	--	--	--	(7,848)	--
Balance at 30 September 2017 (unaudited)	**903,000**	**49,177**	**887**	--	**113**	**192,047**	**1,144,998**

AMLAK INTERNATIONAL FOR REAL ESTATE FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)
For the nine-month period ended 30 September 2018
(SR '000)

	Notes	For the nine-month period ended 30 September 2018	2017
Cash flows from operating activities:			
Profit for the period		**71,678**	78,477
Non-cash adjustment to reconcile profit for the period to net cash from operating activities			
Depreciation	*15*	**1,667**	1,506
Borrowing facility cost and charges		**65,250**	67,875
Employees' end of service benefits		**1,908**	1,565
Impairment allowance for credit losses		--	1,598
Share of net income from joint ventures		--	(5,618)
		140,503	145,403
Decrease / (increase) in operating assets			
Murabaha receivables		**110,472**	142,674
Ijara receivables		**(4,710)**	(221,144)
Ijara mawsofa fi athemmah receivables		**36,640**	832
Prepayments and other assets		**(3,003)**	12,799
Increase / (decrease) in operating liabilities			
Accrued expenses and other liabilities		**26,162**	84,870
Cash from operations		**306,064**	165,434
Borrowing costs paid during the period		**(65,586)**	(69,800)
Employees' end of service benefits paid during the period		**(2,549)**	(112)
Zakat and income tax paid		**(3,331)**	(3,722)
Net cash from operating activities		**234,598**	91,800
Cash flows from investing activities			
Purchase of property and equipment		**(3,406)**	(3,971)
Proceeds from investments in joint ventures	*8*	**15,831**	42,941
Investments in joint ventures	*8*	**(1,235)**	(5,180)
Net cash from investing activities		**11,190**	33,790
Cash flows from financing activities			
Repayment against borrowings		**(934,717)**	(561,883)
Proceeds from borrowings		**746,562**	497,500
Dividend paid		**(67,700)**	(67,500)
Net cash used in financing activities		**(255,855)**	(131,883)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**(10,067)**	(6,293)
Cash and cash equivalents at beginning of the period		**29,634**	9,347
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		**19,567**	3,054
Non-cash supplemental information:			
Net changes in fair value of cash flow hedge		**1,012**	(1,949)
Change in fair value of investments at FVOCI		**(1,680)**	--
Change in fair value of available-for-sale investment		--	1,899
Issuance of share capital – bonus shares issued		**3,000**	3,000

The attached notes 1 to 23 form part of these condensed interim financial statements

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 new mortgage regulations, the Company is in the process of exiting from the investment related business.

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

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

2 BASIS OF PREPARATION

2.1 *Statement of compliance*

The condensed interim financial statements for the three-month and nine-month periods ended September 30, 2018 have been prepared in accordance with IAS 34 Interim Financial Reporting and with 'International Financial Reporting Standards (IFRS) as modified by Saudi Arabian Monetary Authority (SAMA) for the accounting of zakat and income tax, which requires, adoption of all IFRSs as issued by the International Accounting Standards Board ("IASB") except for the application of International Accounting Standard (IAS) 12 - "Income Taxes" and IFRIC 21 - "Levies" so far as these relate to zakat and income tax. As per the SAMA Circular no. 381000074519 dated April 11, 2017 and subsequent amendments through certain clarifications relating to the accounting for zakat and income tax ("SAMA Circular"), the zakat and income tax are to be accrued on a quarterly basis through shareholders equity in retained earnings.

These condensed interim financial statements do not include all the information and disclosures required in the annual financial statements therefore, these should be read in conjunction with the Company's annual audited financial statements as at and for the year ended 31 December 2017.

2.2 *Basis of measurement*

These condensed interim financial statements have been prepared under the historical cost convention modified to include the measurement at fair value of investments at FVOCI and derivatives.

2.3 *Functional and presentation currency*

These condensed interim financial statements have been presented in Saudi Arabian Riyals (SR), as it is the functional currency of the Company. All financial information presented has been rounded-off to the SR in thousand.

3 IMPACT OF CHANGE IN ACCOUNTING POLICIES DUE TO 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 4 of these condensed interim financial statements. As permissible under the transition provisions of the new standards, the Company has opted to apply modified retrospective approach while transitioning to these new standards and accordingly different accounting policies are being used for current and comparative periods and the comparatives have not been restated. Significant judgments and estimates relating to IFRS 9 adoption are disclosed in the note 15 of these condensed interim 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 has no material impact on the Company's condensed interim 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's 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:

- 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.

3 IMPACT OF CHANGE IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS (CONTINUED)

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model ("ECL"). IFRS 9 requires the Company to record an allowance for ECLs for all loans and other debt financial assets not held at 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. 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.

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 and revocation of previous designated financial assets and financial liabilities as measured at FVTPL.
  iii. The designation of certain investments in equity instruments not held for trading as FVOCI. For financial liabilities designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.

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

3 IMPACT OF CHANGE IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS (CONTINUED)

a) 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
			SAR in '000'	
Financial assets				
Cash and cash equivalents	Loans and receivables	Amortised cost	29,634	29,634
Equity investments	AFS	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				
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

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 adoption of 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
		SAR in '000'		
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**

3 IMPACT OF CHANGE IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS (CONTINUED)

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

* 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.

iii) Impact on retained earnings and reserves

	Retained earnings	Unrealized gain on available-for-sale investment SAR in '000'	Unrealized loss on investment at FVOCI
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

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies, estimates and assumptions used in the preparation of these condensed interim financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2017 except for the policies explained below. Based on the adoption of new standards explained in note 3, the following accounting policies are applicable effective 1 January 2018 replacing / amending or adding to the corresponding accounting policies set out in annual audited financial statements for the year ended 31 December 2017.

A. Classification of financial assets

On initial recognition, a financial asset is classified as measured at: amortized cost, FVOCI or 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Asset at FVOCI

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

Financial Asset at 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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Classification of financial assets (continued)

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.

B. 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.

Before 1 January 2018, all the financial liabilities were initially recognize at fair value less transaction costs. Subsequently financial liabilities were recognized at amortized cost

C. Derecognition

i. 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

ii. Financial liabilities

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

D. Modifications of financial assets and financial liabilities

i. 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.

ii. 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.

E. 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Modifications of financial assets and financial liabilities (continued)

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.

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 by the Company on terms that the Company would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Impairment (continued)

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 collateral affects the calculation of ECLs. 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 independent 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.

F. Income / expenses recognition

i. 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Income / expenses recognition (continued)

ii. 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.

G. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Such judgements, estimates, and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advices and expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and in future periods if the revision affects both current and future periods. Significant areas where management has used estimates, assumption or exercised judgment are as follows:

- Impairment for Murabaha receivables;
- Impairment for Ijara receivables; and
- Impairment for Ijara mawsofa fi athemmah receivables.

5 MURABAHA RECEIVABLES, NET

	30 September 2018 (Unaudited)	31 December 2017 (Audited)
Gross Murabaha receivables	**153,050**	263,522
Less: Impairment allowance for credit losses	**(11,155)**	(2,773)
Murabaha receivables, net	**141,895**	260,749

(SR'000)

6 IJARA RECEIVABLES, NET

	30 September 2018 (Unaudited)	31 December 2017 (Audited)
Gross Ijara receivables	**3,659,425**	3,609,120
Less: Unearned income	**(864,136)**	(818,541)
	2,795,289	2,790,579
Less: Impairment allowance for credit losses	**(76,526)**	(46,158)
Ijara receivables, net	**2,718,763**	2,744,421

6.1 The maturity profile of Ijara receivables is as follows:

	30 September 2018 (Unaudited)			
	Not later than one year	**Later than one year but not later than five years**	**Later than five years**	**Total**
Ijara receivables	923,660	1,934,377	801,388	3,659,425
Unearned income	(218,174)	(442,338)	(203,624)	(864,136)
	705,486	**1,492,039**	**597,764**	**2,795,289**
Impairment allowance for credit losses				**(76,526)**
Ijara receivables, net				**2,718,763**

	31 December 2017 (Audited)			
	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)
Ijara receivables, net				2,744,421

7 IJARA MAWSOFA FI ATHEMMAH RECEIVABLES, NET

	30 September 2018 (Unaudited)	31 December 2017 (Audited)
Gross Ijara mawsofa fi athemmah receivables	**131,450**	187,232
Less: Unearned income	**(50,127)**	(69,269)
	81,323	117,963
Less: Impairment allowance for credit losses	**(323)**	(1,267)
Ijara mawsofa fi athemmah receivables, net	**81,000**	116,696

(SR'000)

7 IJARA MAWSOFA FI ATHEMMAH RECEIVABLES, NET (CONTINUED)

7.1 The maturity profile of Ijara mawsofa fi athemmah receivables is as follows:

	30 September 2018 (Unaudited)			
	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	**12,415**	**42,912**	**76,123**	**131,450**
Unearned income	**(5,580)**	**(18,330)**	**(26,217)**	**(50,127)**
	6,835	**24,582**	**49,906**	**81,323**
Impairment allowance for credit losses				**(323)**
				81,000

	31 December 2017 (Audited)			
	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 INVESTMENTS IN JOINT VENTURES

The Company has joint control and ownership interest varying between 40% to 90% with different joint arrangements. These joint ventures (JVs) are structured as a separate vehicle and the Company has a residual interest in their net assets 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 maturity and disbursements for commitments (as disclosed in note 20) in investments for ongoing operations will continue to be booked by the Company.

The Company has accounted for the joint ventures based on the latest available management accounts of the JVs. The financial statements of the JVs are prepared for the same reporting period as that of the Company, using consistent accounting policies except for revenue recognition.

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)

8 INVESTMENTS IN JOINT VENTURES (CONTINUED)

Movement of investment in Joint Ventures is as follows:

For the nine-month period ended 30 September 2018 (Unaudited)	Location	% of shareholding	Opening balance	Additions	Share in net income	Distributions	Closing balance
a) Dar wa Emar, Olaya	AlOlaya, AlKhobar	50%	11,218	--	--	(8,638)	2,580
b) Dar wa Emar, Rahba	AlRahba, AlKhobar	90%	9,280	--	--	(1,809)	7,471
c) AbdulAziz Al Qassim, Malga III	Malga, Riyadh	40%	9,032	1,235	--	(5,384)	4,883
			29,530	1,235	--	(15,831)	14,934

For the year ended 31 December 2017 (Audited)	Location	% of shareholding	Opening balance	Additions	Share in net income	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)	--
d) Al Masharia Al Oula	Al Yasmin District, Riyadh	60%	14,125	--	517	(14,642)	--
e) Saudi Kyan III	AlNawras, AlKhobar	60%	5,409	--	--	(5,409)	--
			112,824	52,230	8,911	(144,435)	29,530

12 DIVIDEND

During the nine-month period ended 30 September 2018, the shareholders have approved, declared and paid dividend of SR 67.7 million (nine-month period ended 30 September 2017: 67.5 million).

13 SHARE CAPITAL

As at 30 September 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.

During the nine-month period ended 30 September 2018, in accordance with approval of shareholders obtained in the annual general meeting held on 7 May 2018, the Company issued 300,000 shares at par value to its employees as an incentive bonus.

14 EARNINGS PER SHARE

The basic and diluted earnings per share have been computed by dividing profit for the period by the weighted average numbers of share outstanding during the period.

	For the three-month period ended 30 September		*For the nine-month period ended 30 September*	
	2018	2017	**2018**	2017
	(Unaudited)		*(Unaudited)*	
Profit for the period	**23,610**	26,035	**71,678**	78,477
Weighted average number of ordinary shares (in thousands)	**90,461**	90,115	**90,461**	90,115
Basic and diluted earnings per share (SR)	**0.26**	0.29	**0.79**	0.87

15 GENERAL AND ADMINISTRATIVE EXPENSES

	For the three-month period ended 30 September		*For the nine-month period ended 30 September*	
	2018	2017	**2018**	2017
	(Unaudited)		*(Unaudited)*	
Salaries and employees related cost	**12,273**	11,280	**36,709**	35,148
IT expenses	**837**	989	**1,820**	2,515
Professional fee	**795**	1,146	**2,231**	2,658
Rent	**726**	728	**2,214**	2,078
Depreciation	**567**	536	**1,667**	1,506
Board fee and expenses	**991**	410	**2,507**	2,036
Travelling expenses	**267**	240	**770**	572
Communication	**290**	285	**680**	712
Maintenance expenses	**167**	169	**486**	359
Others	**1,036**	615	**2,730**	1,939
	17,949	16,398	**51,814**	49,523

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9 ACCOUNT PAYABLES AND OTHER ACCRUALS

	30 September 2018 (Unaudited)	31 December 2017 (Audited)
Advances received from Murabaha and Ijara customers	**10,817**	7,820
Accrued expenses	**7,792**	7,932
Financing to customers (note 9.1)	**21,363**	28,073
Salaries and employee related expenses	**12,556**	13,705
Others	**38,971**	10,782
	91,499	68,312

9.1 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.

10 ZAKAT AND INCOME TAX

The Company has submitted its income tax / zakat declarations for the years ended 31 December 2007 through 2017 with the General Authority of Zakat and Income Tax ("GAZT"). Apart from the below, there has been no change in the assessments raised by the GAZT as disclosed in the Company's annual audited financial statements for the year ended 31 December 2017.

During the nine-month period ended 30 September 2018, the Company received a letter from the GAZT assessing additional zakat and income tax of SR 151.2 million for the years from 2013 to 2016. In arriving at this figure, GAZT once again disallowed the deduction of net investment in finance lease from the Zakat base and investment in joint venture. The Company is in the process to contest this assessment through professional representation.

The Company considers it unlikely that the 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. Due to the uncertainties involved, the Company is unable to assess accurately the outcome of this matter and has not provided for any potential additional liability, which might arise from the assessment appeal and also from potential assessment of open years, in these condensed interim financial statements.

11 BORROWINGS

These represent amounts borrowed from local banks at variable commercial profit rates with remaining maturities up to 5 years and are secured by the assignment of proceeds from instalment receivables. Under the terms of the borrowings arrangements, the Company has to adhere to certain financial and non-financial covenants. During the nine-month period ended 30 September 2018 the Company was in compliance with all the relevant covenants.

Borrowings:	30 September 2018 (Unaudited)	31 December 2017 (Audited)
- Current	**801,635**	861,375
- Non-current	**1,082,049**	1,210,800
	1,883,684	2,072,175

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16 SELLING AND MARKETING EXPENSES

	For the three-month period ended 30 September		For the nine-month period ended 30 September	
	2018	2017	**2018**	2017
	(Unaudited)		*(Unaudited)*	
Marketing expenses	**766**	569	**2,425**	2,291
Outsourcing costs	**480**	736	**1,729**	2,476
Insurance	**855**	611	**1,542**	2,334
	2,101	1,916	**5,696**	7,101

17 RELATED PARTY TRANSACTIONS AND BALANCES

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

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

		Amounts of transactions			
		For the three-month period ended 30 September		For the nine-month period ended 30 September	
Nature of transactions	*Name of related party and relationship*	**2018** *(Unaudited)*	2017 *(Audited)*	**2018** *(Unaudited)*	2017 *(Audited)*
Borrowing costs	The Saudi Investment Bank (Shareholder)	**5,556**	7,099	**19,270**	23,250
Rent expense	Saudi Orix Leasing (Affiliate)	**398**	398	**1,206**	1,194
Security and other expenses	Saudi Orix Leasing (Affiliate)	**35**	34	**120**	117
Salaries and benefits	Key management personnel*	**1,942**	2,248	**6,732**	**5,001**
Board meeting fee and other expenses	Board members	**991**	410	**2,507**	2,036
Profit rate swap cost received	The Saudi Investment Bank (Shareholder)	--	(6)	**2**	(10)
Payment on behalf of the shareholders	Shareholders	**1,061**	--	**1,061**	--

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

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17 RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

		Balances	
Nature of balances	***Names of related parties and Relationship***	***30 September 2018 (Unaudited)***	***31 December 2017 (Audited)***
Cash and cash equivalents	The Saudi Investment Bank (shareholder)	**10,155**	25,408
Due from related parties	Alistithmar Capital (Affiliates)	**1,507**	1,507
	Dar Wa Emar - Olaya (Joint venture)	**6,009**	7,033
Borrowings	The Saudi Investment Bank (Shareholder)	**447,458**	596,117
Financing and advances	Key management	**3,892**	3,241
Available-for-sale investment	Alistithmar Capital (Affiliates)	--	12,887
Investment at fair value through other comprehensive income	SAIB Saraya Tower Real Estate Development Fund (Affiliate)	**11,207**	--
Other receivables	Amlak International For Real Estate Development (Affiliate)	**1**	1
Prepaid rent	Saudi Orix Leasing (Affiliate)	**796**	398
Board meeting and other expenses payable	Board members	**5,082**	2,776
Expenses receivables	Shareholders	**1,061**	--

The notional amount of Profit Rate Swaps (PRS) undertaken with the Saudi Investment Bank (Shareholder) is SR 50 million (31 Dec 2017: SR 50 million) for the period of five year having maturity date of January 2020.

(SR '000)

18 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

Financial instruments comprise financial asset, financial liabilities and derivatives.

Financial assets consist of bank balances, available-for-sale investment, investments at FVOCI, derivatives related profit swaps, murabaha, ijara, ijara mawsofa fi athemmah receivable and receivable from joint ventures. Financial liabilities consist of borrowings, payables and derivatives relates to profit rate swaps.

Fair value hierarchy

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

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

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

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

The 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			
30 September 2018	***Carrying Value***	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets:					
Murabaha receivables, net	**153,050**	--	--	**131,714**	**131,714**
Investment at FVOCI - Fund	**11,207**	--	--	**11,207**	**11,207**
Investment at FVOCI - Equity	**893**	--	--	**893**	**893**
Positive fair value of derivatives	**1,582**	--	**1,582**	--	**1,582**

		Fair Value			
31 December 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 - Funds	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

(SR '000)

18 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The valuation of Murabaha receivables is estimated using contractual cash flows discounted at latest vairable 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 borrowings, is approximate to carrying amount as the entire financing portfolio and borrowings are floating rate.

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

19 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 condensed statement of financial position, commitments and notional amount of derivatives, if any, at a weighted amount determined by management to reflect their relative risk.

	30 September 2018 *(Unaudited)*		31 December 2017 *(Audited)*	
	Total capital ratio %	*Tier I capital ratio %*	*Total capital ratio %*	*Tier I capital ratio %*
Capital adequacy ratio	**46.25**	**46.23**	44.02	43.97

20 COMMITMENTS AND CONTINGENCIES

The Company has facilities approved but not utilised, indicative offers issued which are under consideration of the customers and due diligence in progress as of the reporting date which have the potential to convert into financing amounting to SR 153.5 million (31 December 2017: SR 287 million).

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

The Company is committed to investment in joint venture projects amounting to SR 3.1 million (31 December 2017: SR 5.2 million).

21 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.

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21 FINANCIAL RISK MANAGEMENT (CONTINUED)

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 tools.

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.

i. Credit quality analysis

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

Significant increase in credit risk used in the preparation of these condensed interim financial statements are consistent with those used in the preparation of the condensed interim financial statements for the three-month period ended 30 September 2018.

b. Loss allowance

The following table shows reconciliations from the opening to the closing balance of the loss allowance at an overall level.

	12 Month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Balance at 1 January 2018	9,421	7,556	71,027	88,004
Transfer from 12 Month ECL	(850)	650	200	--
Transfer from lifetime ECL (not credit impaired)	176	(967)	791	--
Transfer from lifetime ECL (credit impaired)	--	12,402	(12,402)	--
Net charge for the period	(179)	(5,836)	6,015	--
Balance at 30 September 2018	**8,568**	**13,805**	**65,631**	**88,004**

(SR '000)

21 FINANCIAL RISK MANAGEMENT (CONTINUED)

c. 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 financial guarantees and real estates. 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

22 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 high net worth, small and medium sized businesses and individuals.

Corporate
These represents financing products granted to corporate 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 and provides support services to the business functions.

The Company's total assets and liabilities at 30 September 2018 and 31 December 2017 and its total operating income, expenses and net income for the nine-month periods ended 30 September 2018 and 2017 are as follows:

	Retail	Corporate	Head office	Total
30 September 2018				
Revenue	**109,336**	**85,102**	--	**194,438**
Expenses	**38,865**	**83,895**	--	**122,760**
Profit / (loss)	**70,471**	**1,207**	--	**71,678**
Total assets	**949,085**	**2,124,935**	**51,787**	**3,125,807**
Total liabilities	**571,941**	**1,343,923**	**74,235**	**1,990,099**
30 September 2017				
Revenue	109,655	94,919	--	204,574
Expenses	47,690	78,407	--	126,097
Profit / (loss)	61,965	16,512	--	78,477
31 December 2017				
Total assets	997,182	2,270,319	59,579	3,327,080
Total liabilities	628,086	1,479,982	49,716	2,157,784

23 APPROVAL OF THE CONDENSED INTERIM FINANCIAL STATEMENTS

The condensed interim financial statements have been approved by the Board of Directors on 15 Safar 1440H (corresponding to 24 October 2018).