AMLAK INTERNATIONAL FOR
REAL ESTATE FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
FINANCIAL STATEMENTS
For the year ended 31 December 2017
together with the
INDEPENDENT AUDITORS' REPORT

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

Independent auditors' report

To the Shareholders of
Amlak International for Real Estate Finance Company
(A Saudi Closed Joint Stock 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 2017, 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 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax.

Basis for Opinion

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS a 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.

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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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Khalil Ibrahim Al Sedais
License No: 371

Riyadh on 11 Jumada'II 1439H
Corresponding to: 27 February 2018

AMLAK INTERNATIONAL FOR REAL ESTATE FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF FINANCIAL POSITION
As at 31 December 2017
(SR '000)

	Notes	**31 December 2017**	31 December 2016 (Restated)
ASSETS			
Cash and cash equivalents	*4*	**29,634**	9,347
Available-for-sale investment	*5*	**12,887**	10,988
Murabaha receivables, net	*6*	**260,749**	432,042
Ijara receivables, net	*7*	**2,744,421**	2,537,413
Ijara mawsofa fi athemmah receivables, net	*8*	**116,696**	120,218
Positive fair value of derivatives	*13*	**1,046**	2,582
Prepayments and other assets	*9*	**103,218**	34,921
Investment in joint ventures	*10*	**29,530**	112,824
Property and equipment, net	*11*	**28,899**	29,182
TOTAL ASSETS		**3,327,080**	3,289,517
LIABILITIES AND SHAREHOLDERS' EQUITY			
Accrued expenses and other liabilities	*12*	**68,312**	40,392
Negative fair value of derivatives	*13*	**666**	746
Zakat and income tax payable	*14*	**3,722**	4,003
Bank borrowings	*15*	**2,072,175**	2,102,270
Employee benefits	*16*	**12,909**	8,834
TOTAL LIABILITIES		**2,157,784**	2,156,245
Share capital	*17*	**903,000**	900,000
Statutory reserve	*18*	**51,654**	41,329
Unrealized gain/(loss) on available-for-sale investment	*5*	**887**	(1,012)
Cash flow hedge reserve	*13*	**380**	1,836
Retained earnings		**213,375**	191,119
Total shareholders' equity		**1,169,296**	1,133,272
Total liabilities and shareholders' equity		**3,327,080**	3,289,517

The attached notes 1 to 32 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 2017
(SR '000)

	Notes	2017	2016 (Restated)
INCOME			
Income from Murabaha contracts		**29,759**	39,085
Income from Ijara contracts		**224,139**	210,994
Income from Ijara mawsofa fi athemmah contracts		**7,646**	7,262
Processing and appraisal fees, net		**4,448**	3,046
Income from ijara, murabaha And ijara mawsofa fi athemah		**265,992**	260,387
Borrowing facility cost and charges	*15*	**(91,755)**	(81,809)
Net income from ijara, murabaha And ijara mawsofa fi athemah		**174,237**	178,578
Other operating income			
Share in net income from joint ventures	*10*	**8,911**	12,797
Arrangement fees		**500**	530
Gain on portfolio sales		**-**	133
		183,648	192,038
Operating expenses			
General and administrative expenses	*21*	**(67,100)**	(64,627)
Selling and marketing expenses	*22*	**(8,955)**	(8,920)
Impairment loss on property and equipment	*11*	**(2,905)**	-
Impairment allowance for credit losses, net	*6,7 & 8*	**(1,434)**	(9,451)
Profit for the year		**103,254**	109,040
Basic and diluted earnings per share (SR)	*20*	**1.14**	1.21

The attached notes 1 to 32 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 2017
(SR '000)

	Notes	**2017**	2016 (Restated)
Profit for the year		**103,254**	109,040
Other comprehensive income / (loss):			
Items that are or may be reclassified subsequently to profit or loss:			
Net movement in cash flow hedges		**(1,456)**	(614)
Available-for-sale investments-net change in fair value	*5*	**1,899**	(324)
Items not to be reclassified subsequently to profit or loss:			
Remeasurement gain on employee benefits	*16*	**268**	-
Other comprehensive income / (loss) for the year		**711**	(938)
Total comprehensive income for the year		**103,965**	108,102

The attached notes 1 to 32 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 2017
(SR '000)

	Share Capital	Statutory reserve	Unrealized gain/(loss) on available-for-sale investment	Cash flow hedge reserve	Retained earnings	Total
For the year ended 31 December 2017						
Balance at 31 December 2016 – as previously reported	**900,000**	**41,329**	**(1,012)**	**1,836**	**193,035**	**1,135,188**
Effect of restatement (note 30)	-	-	-	-	**(1,916)**	**(1,916)**
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**
For the year ended 31 December 2016						
Balance at 31 December 2015 – as previously reported	900,000	30,754	(688)	2,450	165,363	1,097,879
Effect of restatement (note 30)	-	-	-	-	(1,503)	(1,503)
Balance at 31 December 2015 – restated	900,000	30,754	(688)	2,450	163,860	1,096,376
Profit for the year as previously reported	-	-	-	-	105,747	105,747
Effect of restatement (note 30)	-	-	-	-	3,293	3,293
Profit for the year - restated	-	-	-	-	109,040	109,040
Other comprehensive (loss)	-	-	(324)	(614)	-	(938)
Total comprehensive (loss) / income	-	-	(324)	(614)	109,040	108,102
Zakat for the year (note 14)	-	-	-	-	(2,926)	(2,926)
Income tax for the year (note 14)	-	-	-	-	(780)	(780)
Dividend paid (note 19)	-	-	-	-	(67,500)	(67,500)
Transfer to statutory reserve (note 18)	-	10,575	-	-	(10,575)	-
Balance at 31 December 2016 restated	900,000	41,329	(1,012)	1,836	191,119	1,133,272

The attached notes 1 to 32 form an integral part of these financial statements.

AMLAK INTERNATIONAL FOR REAL ESTATE FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF CASH FLOWS
For the year ended 31 December 2017
(SR '000)

	Notes	2017	2016
Cash flows from operating activities:			
Profit for the year		**103,254**	109,040
Non-cash adjustment to reconcile profit for the period to net cash used in operating activities			
Depreciation	*11*	**2,054**	2,030
Impairment loss on property and equipment	*11*	**2,905**	-
Borrowing facility cost and charges	*15*	**91,755**	81,809
Employees benefits	*16*	**4,509**	1,583
Impairment allowances for credit losses		**1,434**	9,422
Share of net income from joint ventures	*10*	**(8,911)**	(12,797)
		197,000	191,087
Decrease / (increase) in operating assets			
Murabaha receivables		**175,694**	(17,789)
Ijara receivables		**(213,461)**	(259,414)
Ijara mawsofa fi athemmah receivables		**4,140**	(9,695)
Prepayments and other assets		**(68,297)**	18,409
Increase / (decrease) in operating liabilities			
Accrued expenses and other liabilities		**30,920**	(18,814)
Cash from / (used in) operations		**125,996**	(96,216)
Borrowing facility cost and charges paid	*15*	**(93,019)**	(77,414)
Employee benefits paid	*16*	**(166)**	(588)
Zakat and income tax paid	*14*	**(3,722)**	(3,501)
Net cash from / (used in) operating activities		**29,089**	(177,719)
Cash flows from investing activities			
Purchase of property and equipment	*11*	**(4,676)**	(4,064)
Proceeds from withdrawals of investment in joint ventures	*10*	**144,435**	63,156
Investments in joint ventures	*10*	**(52,230)**	(51,986)
Net cash from investing activities		**87,529**	7,106
Cash flows from financing activities			
Repayment against bank borrowings	*15*	**(846,331)**	(992,586)
Proceeds from bank borrowings	*15*	**817,500**	1,229,700
Dividends paid	*19*	**(67,500)**	(67,500)
Net cash (used in) / from financing activities		**(96,331)**	169,614
Net increase/ (decrease) in cash and cash equivalents		**20,287**	(999)
Cash and cash equivalents at beginning of the year	*4*	**9,347**	10,346
Cash and cash equivalents at end of the year	*4*	**29,634**	9,347
Non-cash supplemental information:			
Available-for-sale investment- net change in fair value		**1,899**	(324)
Net movement in cash flow hedges		**(1,456)**	(614)

The attached notes 1 to 32 form an integral part of these financial statements

1 THE COMPANY AND THE NATURE OF OPERATIONS

Amlak International for Real Estate Finance Company ("Amlak", 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 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 financial statements of the Company have been prepared:

a) in accordance with 'International Financial Reporting Standards (IFRS) as modified by the 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 11 April 2017 and subsequent amendments through certain clarifications relating to the accounting for zakat and income tax ("SAMA Circular"), the Zakat and Income tax are to be accrued on a quarterly basis through shareholders equity under retained earnings; and

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

Refer note 3 for the accounting policy of zakat and income tax and note 30 for the impact of change in the accounting policy resulting from the SAMA Circular.

2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention except for the measurement at fair value of available-for-sale investments 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.

2 BASIS OF PREPARATION (CONTINUED)

2.4 Critical accounting judgments, estimates and assumptions

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

i. *Impairment of financial assets*

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

Impairment of available-for-sale equity investment includes determination of a significant or prolonged decline in the fair value below its cost. Impairment losses are recognised in the statement of profit or loss as impairment loss on available-for-sale investment.

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

The Company reviews its financial assets portfolio to assess specific and collective impairment on a quarterly basis. In determining whether an impairment loss should be recorded, the Company uses objective evidence and estimates in making judgments as to impairment in determining whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. This evidence may include observable data indicating that there has been an adverse change in the payment status of the counter-party. Impairment allowance for credit losses is based on management assessment as to whether there is objective evidence that a financial asset may be impaired. If such evidence exists, the estimated recoverable amount is determined and any impairment loss is recognised in the statement of profit or loss.

ii. *Fair value measurement*

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

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

2 BASIS OF PREPARATION (CONTINUED)

2.4 Critical accounting judgments, estimates and assumptions (continued)

ii. Fair value measurement (continued)

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

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

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

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities

- Level 2 — Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

- Level 3 — inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

At each reporting date, management of the Company analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Company's accounting policies. For this analysis, the management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities based on the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

iii. Going concern

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

- Change in accounting policy in relation to accounting for zakat and income tax. As described in note 2, the Company amended its accounting policy in relation to zakat and income tax effective 1 January 2017. Previously, deferred tax asset / liability was recorded in relation to temporary deductible / taxable differences, which is not required under the SAMA Circular no. 381000074519 issued in April 2017 for the accounting of zakat and income tax. The effects of the new zakat and income tax accounting policy is accounted in the financial statements retrospectively (See note 30).

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 athemma income is recognised over the term of the loan 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets

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

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

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Investment in joint ventures

A joint venture 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.

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 trade and other payables, bank borrowings, financial guarantee contracts, and derivative financial instruments.

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

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 shareholders are subject to Zakat and non-Saudi / GCC 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. Effective 1 January 2017 in line with SAMA circulate, the Company amended its accounting policy relating to zakat and income tax and has started to recognize zakat and income tax charge to retained earnings. Previously, zakat and income tax was charged to the statement of profit or loss.

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)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Processing and appraisal fee

Appraisal fees for services rendered are recognised when the service is provided. Processing fees received upfront are recognised over the financing period as a part of the effective yield on financial assets.

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

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.

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.

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 50% of the capital.

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 (if material).

Adoption of the following amendments to existing standards, which have has no significant impact on or after these financial statements:

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

(SR'000)

4 CASH AND CASH EQUIVALENTS

	2017	2016
Cash in hand	**23**	23
Cash at bank – current accounts	**29,611**	9,324
	29,634	9,347

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

5 AVAILABLE-FOR-SALE INVESTMENT

Available-for-sale investment represents investment in 120 units of SAIB Saraya Tower Real Estate Development Fund (2016:120 units), a close-ended real estate development fund managed by Alistithmar Capital.

The movement in cost and unrealized loss of the available-for-sale investment during the years 2017 and 2016 was as follows:

	2017	2016
Cost at the beginning and end of the year	**12,000**	12,000
Unrealised gain / (loss):		
At beginning of the year	**(1,012)**	(688)
Change in fair value, net	**1,899**	(324)
At end of the year	**887**	(1,012)
Net carrying amount	**12,887**	10,988

6 MURABAHA RECEIVABLES, NET

	2017	2016
Gross Murabaha receivables	**296,843**	512,957
Less: Unearned income	**(33,321)**	(73,548)
	263,522	439,409
Less: Impairment allowance for credit losses	**(2,773)**	(7,367)
Murabaha receivables, net	**260,749**	432,042

6.1 As at 31 December, the credit quality of Murabaha receivables is as follows:

	2017	2016
Neither past due nor impaired	**140,906**	311,397
Past due but not impaired	**96,029**	77,825
Impaired	**26,587**	50,187
	263,522	439,409

The fair value of collateral of impaired Murabaha receivables held by the Company based on the latest appraisal was SR 73.3 million.

(SR'000)

6 MURABAHA RECEIVABLES, NET (CONTINUED)

6.2 As at 31 December 2017, the ageing of past due but not impaired installments and the related balances of Murabaha receivables are as follows:

Days past due	**Murabaha receivables**	**Past due instalments**
1 – 30	**42,073**	**1,096**
31 – 60	**53,326**	**5,618**
61 –90	**630**	**328**
Total	**96,029**	**7,042**

As at 31 December 2016, the ageing of past due but not impaired installments and the related balances of Murabaha receivables are as follows:

Days past due	Murabaha receivables	Past due instalments
1 – 30	25,064	721
31 – 60	24,034	3,147
61 –90	28,727	596
Total	77,825	4,464

6.3 The maturity profile of Murabaha receivables is as follows:

	31 December 2017			
	Not later than one year	**Later than one year but not later than five years**	**Later than five years**	**Total**
Murabaha receivables	**151,327**	**144,497**	**1,019**	**296,843**
Unearned income	**(15,273)**	**(17,823)**	**(225)**	**(33,321)**
	136,054	**126,674**	**794**	**263,522**
Impairment allowance for credit losses				**(2,773)**
				260,749

	31 December 2016			
	Not later than one year	Later than one year but not later than five years	Later than five years	Total
Murabaha receivables	187,269	294,905	30,783	512,957
Unearned income	(26,231)	(43,099)	(4,218)	(73,548)
	161,038	251,806	26,565	439,409
Impairment allowance for credit losses				(7,367)
				432,042

(SR'000)

6 MURABAHA RECEIVABLES, NET (CONTINUED)

6.4 The movement in impairment allowance for credit losses for the year ended 31 December was as follows:

	2017	2016
Balance at beginning of the year	**7,367**	5,813
(Reversal) / provided during the year, net	**(4,594)**	1,554
Balance at end of the year	**2,773**	7,367

6.5 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 excludes unearned income and any impairment allowance.

	2017	2016
Less than 50%	**188,120**	140,207
51-70%	**75,402**	206,876
71-85%	**-**	92,326
86-100%	**-**	-
Total Exposure	**263,522**	439,409

None of the account was impaired in the 86%-100% category.

7 IJARA RECEIVABLES, NET

	2017	2016
Gross Ijara receivables	**3,609,120**	3,330,111
Less: Unearned income	**(818,541)**	(752,993)
	2,790,579	2,577,118
Less: Impairment allowance for credit losses	**(46,158)**	(39,705)
Ijara receivables, net	**2,744,421**	2,537,413

7.1 As at 31 December, the credit quality of Ijara receivables is as follows:

	2017	2016
Neither past due nor impaired	**2,354,996**	2,187,275
Past due but not impaired	**252,686**	289,236
Impaired	**182,897**	100,607
	2,790,579	2,577,118

The fair value of collateral of impaired Ijara receivables held by the Company based on the latest appraisal was SR 353.63 million.

7 IJARA RECEIVABLES, NET (CONTINUED)

7.2 As at 31 December 2017, the ageing of past due but not impaired installments and the related balances of Ijara receivables are as follows:

Days past due	Ijara receivables	Past due instalments
1 – 30	**72,466**	**9,187**
31 – 60	**51,523**	**1,878**
61 –90	**128,697**	**12,052**
Total	**252,686**	**23,117**

As at 31 December 2016, the ageing of past due but not impaired installments and the related balances of Ijara receivables are as follows:

Days past due	Ijara receivables (SR '000)	Past due instalments (SR '000)
1 – 30	44,525	4,605
31 – 60	232,728	22,517
61 –90	11,983	1,182
Total	289,236	28,304

7.3 The maturity profile of Ijara receivables is as follows:

	31 December 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

	31 December 2016			
	Not later than one year	Later than one year but not later than five years	Later than five years	Total
Ijara receivables	754,670	1,891,592	683,849	3,330,111
Unearned income	(170,403)	(421,278)	(161,312)	(752,993)
	584,267	1,470,314	522,537	2,577,118
Impairment allowance for credit losses				(39,705)
				2,537,413

(SR'000)

7 IJARA RECEIVABLES, NET (CONTINUED)

7.4 The movement in Impairment allowance for credit losses for the year ended 31 December was as follows:

	2017	2016
Balance at beginning of the year	**39,705**	32,172
Provided during the year	**6,453**	7,533
Balance at end of the year	**46,158**	39,705

7.5 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.

	2017	2016
Less than 50%	**968,424**	928,863
51-70%	**950,288**	1,046,902
71-85%	**780,163**	498,649
86-100%	**91,704**	102,704
Total Exposure	**2,790,579**	2,577,118

None of the account was impaired in the 86%-100% category.

8 IJARA MAWSOFA FI ATHEMMAH RECEIVABLES, NET

	2017	2016
Gross Ijara mawsofa fi athemmah receivables	**187,232**	201,174
Less: Unearned income	**(69,269)**	(79,071)
	117,963	122,103
Less: Impairment allowance for credit losses	**(1,267)**	(1,885)
Ijara mawsofa fi athemmah receivables, net	**116,696**	120,218

8.1 As at 31 December, the credit quality of Ijara Mawsofa Fi Athemmah receivables is as follows:

	2017	2016
Neither past due nor impaired	**114,199**	117,986
Past due but not impaired	**3,764**	4,117
Impaired	**-**	-
	117,963	122,103

8.2 As at 31 December 2017, the ageing of past due but not impaired installments and the related balances of Ijara Mawsofa Fi Athemmah receivables are as follows:

Days past due	**Ijara Mawsofa receivables**	**Past due instalments**
1 – 30	**2,027**	**10**
31 – 60	**1,017**	**21**
61 –90	**720**	**21**
Total	**3,764**	**52**

(SR'000)

8 IJARA MAWSOFA FI ATHEMMAH RECEIVABLES, NET (CONTINUED)

As at 31 December 2016, the ageing of past due but not impaired installments and the related balances of Ijara Mawsofa Fi Athemmah receivables are as follows:

Days past due	Ijara Mawsofa receivables	Past due instalments
1 – 30	2,028	21
31 – 60	2,089	22
61 –90	-	-
Total	4,117	43

8.3 The maturity profile of Ijara Mawsofa Fi Athemmah receivables is as follows:

	31 December 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

	31 December 2016			
	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	21,363	68,676	111,136	201,174
Unearned income	(8,438)	(27,077)	(43,557)	(79,071)
	12,925	41,599	67,579	122,103
Impairment allowance for credit losses				(1,885)
				120,218

8.4 The movement in impairment allowance for credit losses for the year ended 31 December was as follows:

	2017	2016
Balance at beginning of the year	**1,885**	1,549
(Reversal) / provided during the year, net	**(618)**	336
Balance at end of the year	**1,267**	1,885

(SR'000)

8 IJARA MAWSOFA FI ATHEMMAH RECEIVABLES, NET (CONTINUED)

8.5 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.

	2017	2016
Less than 50%	**27,845**	25,791
51-70%	**50,877**	55,104
71-85%	**39,241**	37,261
86-100%	**-**	3,947
Total Exposure	**117,963**	122,103

None of the account was impaired in the 86%-100% category.

9 PREPAYMENTS AND OTHER ASSETS

	2017	2016
Other real estate assets (note 9.1)	**88,237**	-
Receivable from Joint Ventures	**8,540**	28,286
Accrued profit on derivatives	**1,295**	1,882
Prepaid rent	**669**	669
Others	**4,477**	4,084
	103,218	34,921

9.1 During the current year, the Company decided to liquidate two joint ventures. 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 ventures (JVs) 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 Company till maturity and disbursements for commitments 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-venture have agreed to make additional contributions in proportion to their interests to make up any losses, if required.

10 INVESTMENTS IN JOINT VENTURES (CONTINUED)

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

For the year ended 31 December 2017	Location	% of shareholding	Opening balance	Additions	Share in net income (SR '000)	Withdrawals	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**
d) AbdulAziz Al Qassim, Malga III	Malga, Riyadh	40%	**27,482**	**718**	**3,135**	**(22,303)**	**9,032**
h) Tharaa Real Estate Investment	AlMarooj, AlKhobar	50%	**8,595**	**46,440**	-	**(55,035)**	-
j) Al Masharia Al Oula	Al Yasmin District, Riyadh	60%	**14,125**	-	**517**	**(14,642)**	-
k) Saudi Kyan III	AlNawras, AlKhobar	60%	**5,409**	-	-	**(5,409)**	-
			112,824	**52,230**	**8,911**	**(144,435)**	**29,530**

For the year ended 31 December 2016	Location	% of shareholding	Opening balance	Additions	Share in net income / (loss) (SR '000)	Withdrawals	Closing balance
a) Dar wa Emar, Olaya	AlOlaya, AlKhobar	50%	16,068	35,511	1,840	(13,694)	39,725
b) Dar wa Emar, Rahba	AlRahba, AlKhobar	90%	28,364	-	1,800	(12,676)	17,488
c) Teraz Arabia	Erga, Riyadh	70%	15,926	-	4,549	(20,475)	-
d) AbdulAziz Al Qassim, Malga III	Malga, Riyadh	40%	22,949	4,533	-	-	27,482
f) Albani Development Company	Al Yasmin District, Riyadh	50%	3,254	-	(201)	(3,053)	-
g) Saudi Kayan II	AlNawras, AlKhobar	60%	4,110	579	137	(4,826)	-
h) Tharaa Real Estate Investment	AlMarooj, AlKhobar	50%	3,640	8,063	1,977	(5,085)	8,595
i) Abdul Aziz Al Qassim, Al-Aqeeq	AlAqeeq, Riyadh	60%	1,784	600	963	(3,347)	-
j) Al Masharia Al Oula	Al Yasmin District, Riyadh	60%	10,443	2,700	982	-	14,125
k) Saudi Kyan III	AlNawras, AlKhobar	60%	4,659	-	750	-	5,409
			111,197	51,986	12,797	(63,156)	112,824

(SR'000)

10 INVESTMENTS IN JOINT VENTURES (CONTINUED)

b) The Company has accounted for the joint ventures based on the latest available management 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 except for revenue recognition. Necessary, adjustments have been made to the financial statements of the JVs to align with the Company's financial statements. The following table illustrates summarised financial information of the Company's outstanding investment in joint ventures:

For the year ended 31 December 2017	Company's effective holding	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Equity	Revenue	Profit
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**

For the year ended 31 December 2016	Company's effective holding	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Equity	Revenue	Profit
a) Dar wa Emar, Olaya	50%	2,789	101,491	1,122	-	103,158	-	-
b) Dar wa Emar, Rahba	90%	19,431	-	-	-	19,431	15,440	2,000
c) AbdulAziz Al Qassim, Malga III	40%	2,250	66,454	-	-	68,704	-	-
d) Tharaa Real Estate Investment	50%	2,127	97,101	74,368	-	24,860	-	-
e) Al Masharia Al Oula	60%	12,216	11,325	-	-	23,541	12,100	1,637
f) Saudi Kyan III	60%	11,864	-	2850	-	9,014	20,950	5,028
		50,677	276,371	78,340	-	248,708	48,490	8,665

(SR'000)

11 PROPERTY AND EQUIPMENT, NET

For the year ended 31 December 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 during the year	-	-	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 on property & Equipment*	2,905	-	-	-	-	-	**2,905**
Net book value:							
At 31 December 2017	**15,750**	**1,417**	**229**	**417**	**4,012**	**7,074**	**28,899**

*During current year, the Company recognized an impairment loss of SR 2.9 million on land, as a difference between the recoverable amount and carrying value.

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

(SR'000)

11 PROPERTY AND EQUIPMENT NET (CONTINUED)

For the year ended 31 December 2016	Land	Leasehold improvements	Office equipment	Furniture and fixtures	Information technology equipment	Work in Progress*	Total
Cost:							
Balance at beginning of the year	18,655	2,000	475	2,076	13,666	5,564	42,436
Additions during the year	-	936	161	259	2,407	301	4,064
Transferred to fixed assets	-	728	7	115	1,122	(1,972)	-
Balance at end of the year	18,655	3,664	643	2,450	17,195	3,893	46,500
Accumulated Depreciation:							
Balance at beginning of the year	-	1,160	366	1,691	12,071	-	15,288
Charge for the year	-	726	58	250	996	-	2,030
Balance at end of the year	-	1,886	424	1,941	13,067	-	17,318
Net book value:							
At 31 December 2016	**18,655**	**1,778**	**219**	**509**	**4,128**	**3,893**	29,182

*Work in progress as at 31 December 2016 represents the amount paid for information technology system enhancement.

(SR'000)

12 ACCRUED EXPENSES AND OTHER LIABILITIES

	2017	2016
Financing to customers (note 12.1)	**28,073**	590
Salaries and employee related expenses	**13,705**	14,654
Accrued expenses	**7,932**	8,930
Advances received from Murabaha and Ijara customers	**7,820**	11,985
Others (note 12.2)	**10,782**	4,233
	68,312	40,392

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 Others include late payment charges collected from customers amounting to SR 8.3 million (2016: SR 2.7 million). In accordance with the Shari'a advisor, late payment charges collected is recognized as other liabilities in statement of financial positions and is paid as charities.

13 DERIVATIVE

As at 31 December 2017, the Company held Profit Rate Swaps ("PRS") of a notional value of SR 200 million (2016: SR 302 million) in order to hedge its exposure to commission rate risks related to long term financing. The table below shows the fair values of derivative financial instruments, recorded as assets and liabilities:

31 December 2017	**Positive fair value of PRSs**	**Negative fair value of PRSs**	**Cash flow hedge reserve**
Current portion	**1,046**	**(666)**	**380**

31 December 2016	Positive fair value of PRSs	Negative fair value of PRSs	Cash flow hedge reserve
Current portion	2,582	(746)	1,836

14 ZAKAT AND INCOME TAX

a) Charge for the year

	2017	2016
Current zakat (note (b))	**2,717**	2,926
Current income tax (note (c))	**724**	780
	3,441	3,706

(SR'000)

14 ZAKAT AND INCOME TAX (CONTINUED)

b) Zakat

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

	2017	2016
Shareholders' equity	**903,000**	900,000
Bank borrowings	**2,072,175**	2,102,270
Opening provisions and adjustments	**57,791**	6,754
Book value of property and equipment	**(16,716)**	(16,716)
Net investment in finance lease	**(3,201,594)**	(3,168,160)
Adjusted net asset of the Company	**(185,344)**	(175,852)
Adjusted net income for the year	**112,289**	120,957
Zakat base (higher of adjusted net asset or net income)	**112,289**	120,957

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:

	2017	2016
Zakat base attributable to Saudi and GCC shareholders (96.8%)	**108,683**	117,059
Zakat @ 2.5%	**2,717**	2,926

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

	2017	2016
As at 1 January	**3,163**	3,006
Charge for the year	**2,717**	2,926
Payment made during the year	**(2,943)**	(2,769)
As at 31 December	**2,937**	3,163

c) Income tax

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

	2017	2016
Adjusted net income	**112,289**	120,957
Adjusted net income attributable to Non-Saudi shareholders (3.22%)	**3,618**	3,898
Income tax payable @ 20%	**724**	780

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

	2017	2016
As at 1 January	**840**	792
Charge for the year	**724**	780
Payment made during the year	**(779)**	(732)
As at 31 December	**785**	840

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 2016 with the General Authority of Zakat and Income Tax ("GAZT"). The status of assessments is as follows:

a) The GAZT has assessed additional zakat of SR 39.5 million for the years from 2007 to 2010. This is principally due to the fact that the GAZT has not allowed a deduction from zakat base of the net investment in finance leases.

The Company's appeal with the Preliminary Appeal Committee against the GAZT's assessment order related to the years 2007 to 2010 and against the interim assessment order related to 2012 was disallowed on 21 April 2014. As a result, the Company had filed an appeal before the Higher Appeal Committee. In November 2016, a letter from GAZT was received to attend a hearing on 05/04/1438 (corresponding to 3 January 2017) on the Appeal filed for 2007-2010 with the Higher Appeal Committee against the decision taken by the Preliminary Appeal committee. The hearing was later postponed until further notice. The Company is contesting this assertion through professional representations.

b) During the year 2016, the Company has received a letter from GAZT assessing additional zakat and income tax of SR 43.5 million for the 2011 and 2012 assessment years. In arriving at this figure, GAZT once again disallowed the deduction of net investments / financing receivables from the zakat base. The Company is contesting this assertion through professional representations.

Preliminary Objection Committee (POC) gave verdict dated 03/09/1438H (corresponding to 29/05/2017G) against Amlak International rejecting the appeal and restating their earlier argument. Responding this decision, Amlak has filed an appeal with the Higher Appeal Committee as on 08/11/1438H (corresponding to 31/07/2017). A bank guarantee amounting to SR 43.5 million was issued for this appeal.

c) On 08/11/1438H (corresponding to 31/07/2017), the Company received a letter from GAZT for the period covering from 2013 to 2016 asking for certain details to which the Company has replied on 29/12/1438H (corresponding to 20/09/2017G).The Company has not considered the disallowances of deduction of net investment in finance leases for the years ended 31 December 2013, 2014, 2015 and 2016 and in the current period financial statements. There is a potential risk of additional claims by the GAZT, if the same principle were to be applied for these years. If the precedent by the GAZT in respect of the Company's zakat base for 2011 and 2012 are applied, the potential risk of additional zakat to be assessed by the GAZT would be in the region of SR 26 million for each year from 2013 to 2016.

d) For 2017, 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.

The Company considers it unlikely that the present 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 financial statements.

(SR'000)

15 BANK BORROWINGS

These represent amounts borrowed from local commercial banks. These facilities carry borrowing costs at commercial 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 has to adhere to certain financial and non-financial covenant. The Company is in compliance with all the covenants. As at 31 December, a breakdown of bank borrowing by maturity is as follows:

	2017	2016
Current portion	**861,375**	810,678
Non-current portion	**1,210,800**	1,291,592
	2,072,175	2,102,270

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

	2017	2016
Balance at beginning of the year	**2,102,270**	1,860,761
Borrowings made during the year	**817,500**	1,229,700
Principal repaid during the year	**(846,331)**	(992,586)
Profit accrued during the year	**91,755**	81,809
Profit repaid during the year	**(93,019)**	(77,414)
Balance at end of the year	**2,072,175**	2,102,270

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:

	2017	2016
Present value of defined benefit obligation	**12,909**	8,834

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

	2017	2016
Current service cost	**4,123**	1,347
Interest cost	**386**	236
Benefit expense	**4,509**	1,583

(SR'000)

16 EMPLOYEES' TERMINAL BENEFITS (CONTINUED)

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

	2017	2016
Present value of defined benefit obligation at beginning of the year	**8,834**	7,839
Charge recognised in the statement of profit or loss:		
Current service cost	**4,123**	1,347
Interest cost	**386**	236
	4,509	1,583
Actuarial gain on defined benefit plan recognized in the statement of other comprehensive income	**(268)**	-
Benefits paid	**(166)**	(588)
Present value of defined benefit obligation at end of the year	**12,909**	8,834

d) Principal actuarial assumptions:

	2017	2016
Discount rate	**3.05%**	3.5%
Salary increase rate	**3.05%**	3.5%

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 2017	
	Increase	**Decrease**
Discount rate (0.5% movement)	**595**	**(644)**
Future salary growth (0.5% movement)	**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

The Company's authorised, issued and paid-up share capital is SR 903 million (31 December 2016: SR 900 million) divided into 90.3 million shares (31 December 2016: 90 million shares) with a nominal value of SR 10 each.

During the current year, in accordance with the approval in annual general meeting held on 16 May 2017, 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 after zakat and income tax, after absorption of accumulated losses, is transferred to a statutory reserve until such reserve equals 50% of its share capital. This reserve is not available for distribution to the shareholders. During the year, the Company has transferred SR 10.3 million (2016: SR 10.5 million).

19 DIVIDENDS

During the current year, the shareholders have approved and declared dividend of SR Nil (31 December 2016: SR 67.5 million was declared and approved, paid in the current year.

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.

	2017	2016 (Restated)
Profit for the year (SR '000)	**103,520**	109,040
Weighted average number of ordinary shares (in thousands)	**90,188**	90,000
Basic and diluted earnings per share (SR)	**1.14**	1.21

21 GENERAL AND ADMINISTRATIVE EXPENSES

	2017	2016
Salaries and employee related cost	**49,863**	46,640
Board fee and expenses	**3,424**	2,900
Rent	**2,899**	2,766
Information Technology expenses	**2,082**	2,339
Professional fee	**2,043**	3,196
Depreciation (note 11)	**2,054**	2,030
Maintenance expenses	**552**	519
Travelling expenses	**879**	850
Communication	**798**	683
Others	**2,506**	2,704
	67,100	64,627

22 SELLING AND MARKETING EXPENSES

	2017	2016
Marketing expenses	**3,021**	4,000
Outsourcing costs	**2,883**	2,595
Insurance	**3,051**	2,325
	8,955	8,920

23 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 financial statements, significant transactions and balances arising from transactions with related parties are as follows:

(SR'000)

23 RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

Nature of transactions	Name of related party and relationship	Amounts of transactions 2017	2016
Borrowing facility cost and charges	The Saudi Investment Bank (shareholder)	**27,164**	25,124
Rent expense	Saudi Orix Leasing (affiliate)	**1,632**	1,592
Security and other expenses	Saudi Orix Leasing (affiliate)	**188**	147
Arrangement fee	Alistithmar Capital (affiliate)	**500**	530
PRS (profit) cost received / paid	The Saudi Investment Bank (shareholder)	**55**	263
Salaries and benefits	Key management personnel*	**9,557**	7,874
Board meeting fees and other expenses	Board members	**3,424**	2,900

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

Nature of balances and names of related parties	Relationship	Balances	
Bank balances and cash:			
The Saudi Investment Bank	Shareholder	**25,408**	3,395
Due from related parties:			
Saudi Kayan III	Joint venture	-	5,556
Tharaa Real Estate Investment	Joint venture	-	8,029
Alistithmar Capital	Affiliate	**1,507**	1,007
Dar Wa Emar – Olaya	Joint venture	**7,033**	13,694
Bank borrowings:			
The Saudi Investment Bank	Shareholder	**596,117**	672,467
Notional amount of Profit Rate Swaps (PRS):			
The Saudi Investment Bank	Shareholder	**50,000**	85,000
Financing and advances:			
Key management personnel	Key management	**3,241**	4,361
Available-for-sale investment:			
SAIB Saraya Tower Real Estate Development Fund	Affiliate	**12,887**	10,988
Other receivables:			
Amlak International For Real Estate Development	Affiliate	**1**	1
Prepaid rent:			
Saudi Orix Leasing	Affiliate	**398**	398
Board meeting and other expenses payable			
Board members	Board members	**2,776**	3,900

24 RISK MANAGEMENT

Financial instruments carried on the statement of financial position comprise bank balances, Murabaha receivables, Ijara receivables, Ijara mawsofa fi athemmah receivables, available-for-sale investment, bank borrowings, positive and negative fair value of derivative, other receivables and payables.

Financial assets are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

The classification of financial assets depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(SR'000)

24 RISK MANAGEMENT (CONTINUED)

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

- Credit risk
- Liquidity risk
- Market risk

The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

Risk management is carried out under policies approved by the management. The management identifies, evaluates and hedges financial risks and has written principles for overall risk management covering specific areas, such as credit risk, liquidity risk and market risk.

1) Credit risk

Credit risk 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. The Company has established procedures to manage credit exposure including evaluation of lessees' / borrowers credit worthiness, formal credit approvals, assigning credit limits, obtaining collateral such as title on leased financed assets and personal guarantees.

Concentrations of credit risk arises when a number of counter-parties 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 affected similarly 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 follows a credit classification mechanism, as a tool to manage the quality of credit risk of the financed Murabaha, Ijara and Ijara mawsofa fi athemmah portfolios. The credit classification differentiates between performing and non-performing portfolios, and allocates provisions accordingly.

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

	2017	2016
Cash and cash equivalents	**29,611**	9,324
Murabaha receivables, net	**260,749**	432,042
Ijara receivables, net	**2,744,421**	2,537,413
Ijara mawsofa fi athemmah receivables, net	**116,696**	120,218
Receivable from joint ventures	**8,540**	28,286
Accrued profit on derivatives	**1,295**	1,882
	3,161,312	3,129,165

Following are the details of credit quality of Murabaha receivables, Ijara receivables and Ijara mawsofa fi athemmah receivables.

(SR'000)

24 RISK MANAGEMENT (CONTINUED)

1) Credit risk (Continued)

a) Neither past due nor impaired receivables

	Murabaha receivables	Ijara receivables	Ijara Mawsofa fi athemmah receivables	Total
31 December 2017				
Category -1	**57,469**	**575,563**	**-**	**633,032**
Category -2	**79,756**	**1,110,788**	**40,372**	**1,230,916**
Category -3	**3,681**	**658,330**	**73,827**	**735,838**
Category -4	**-**	**10,315**	**-**	**10,315**
Total	**140,906**	**2,354,996**	**114,199**	**2,610,101**
31 December 2016				
Category -1	90,412	488,525	-	578,937
Category -2	161,581	1,108,233	37,189	1,307,003
Category -3	58,507	583,173	80,797	722,477
Category -4	897	7,344	-	8,241
Total	311,397	2,187,275	117,986	2,616,658

a) Neither past due nor impaired receivables (Continued)

Category -1
Very strong quality: Capitalisation, earnings, financial strength, liquidity, management, market reputation and repayment ability are excellent.

Category -2
Good quality: Capitalisation, earnings, financial strength, liquidity, management, market reputation and repayment ability are good.

Category -3
Satisfactory quality: Facilities require regular monitoring due to financial risk factors. Ability to repay remains at a satisfactory level.

Category -4
Special mention: Facilities require close attention of management due to deterioration in the borrowers' financial condition. However, repayment is currently protected.

(SR'000)

24 RISK MANAGEMENT (CONTINUED)

2) Market rate risk

2.1 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 31 December 2017 and 2016. All the exposures are monitored and analysed in major currency concentrations and relevant sensitivities are disclosed in SR thousands.

	2017		2016	
	Change in basis points	**Impact on net income**	Change in basis points	Impact on net income
Saudi Riyals	**+100**	**7,670**	+100	8,485
Saudi Riyals	**-100**	**(7,670)**	-100	(8,485)

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.

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**	
Cumulative Gap	**(868,733)**	**(86,104)**	**969,184**	**1,049,691**	**1,092,592**	

(SR'000)

24 RISK MANAGEMENT (CONTINUED)

2) Market rate risk

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

	Profit bearing					
31 December 2016	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-profit bearing	Total
Assets						
Cash and cash equivalents	-	-	-	-	9,347	9,347
Available-for-sale investments	-	-	-	-	10,988	10,988
Murabaha receivables, net	49,512	108,491	247,887	26,152	-	432,042
Ijara receivables, net	459,741	864,105	1,124,434	89,133	-	2,537,413
Ijara mawsofa fi athemmah receivables, net	45,921	73,066	1,231	-	-	120,218
Positive fair value of derivatives	-	-	-	-	2,582	2,582
	555,174	1,045,662	1,373,552	115,285	22,917	3,112,590
Liabilities						
Negative fair value of derivatives	-	-	-	-	746	746
Bank borrowings	1,478,963	237,779	385,528	-	-	2,102,270
Total Liabilities	1,478,963	237,779	385,528	-	746	2,103,016
Gap	(923,789)	807,883	988,024	115,285	22,171	
Cumulative Gap	(923,789)	(115,906)	872,118	987,403	1,009,574	

2.2) 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.

(SR'000)

24 RISK MANAGEMENT (CONTINUED)

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.

3.1) Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Company's financial liabilities at 31 December 2017 and 31 December 2016 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					
31 December 2017	**Within 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**No fixed maturity**	**Total**
Accrued expenses and other liabilities	45,498	22,814	-	-	-	**68,312**
Bank borrowings	224,618	636,757	1,210,800	-	-	**2,072,175**
Derivatives	-	-	17,365	-	-	**17,365**
Total	**270,116**	**659,571**	**1,228,165**	-	-	**2,157,852**

	Fixed maturity					
31 December 2016	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
Accrued expenses and other liabilities	16,470	20,946	2,976	-	-	40,392
Bank borrowings	236,558	574,120	1,291,592	-	-	2,102,270
Derivatives	-	-	30,633	-	-	30,633
Total	253,028	595,066	1,325,201	-	-	2,173,295

(SR'000)

24 RISK MANAGEMENT (CONTINUED)

3) Liquidity risk (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					
31 December 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 investments	-	-	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**

24 RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

31 December 2016	Fixed maturity Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
Assets			(SR '000)			
Cash and cash equivalents	-	-	-	-	9,347	9,347
Available-for-sale investments	-	-	10,988	-	-	10,988
Murabaha receivables, net	49,512	108,491	247,887	26,152	-	432,042
Ijara receivables, net	173,378	402,216	1,447,418	514,401	-	2,537,413
Ijara mawsofa fi athemmah receivables, net	3,343	9,390	40,954	66,531	-	120,218
Positive fair value of derivatives	4	122	2,456	-	-	2,582
Prepayments and other assets	34,921	-	-	-	-	34,921
Investment in joint ventures	28,256	84,568	-	-	-	112,824
Property and equipment	426	1,278	6,764	2,059	18,655	29,182
Total Assets	289,840	606,065	1,756,467	609,143	28,002	3,289,517
Liabilities						
Accrued expenses and other liabilities	16,469	20,947	2,976	-	-	40,392
Negative fair value of derivatives	-	-	746	-	-	746
Zakat income tax payable	-	4,003	-	-	-	4,003
Bank borrowings	236,558	574,120	1,291,592	-	-	2,102,270
Employee benefits	-	-	-	-	8,834	8,834
Total liabilities	253,027	599,070	1,295,314	-	8,834	2,156,245

(SR'000)

25 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 investments, derivatives related interest swaps, murabaha, ijara, ijara mawsofa fi athemmah receivable and receivable from joint ventures. Financial liabilities consist of bank borrowings, payables and derivatives relates to interest 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			
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	**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**

		Fair Value			
31 December 2016	Carrying Value	Level 1	Level 2	Level 3	Total
Financial assets:					
Murabaha receivables, net	439,409	-	-	414,482	414,482
Available-for-sale investment	10,988	-	10,988	-	10,988
Positive fair value of derivatives	2,582	-	2,582	-	2,582
Financial liabilities:					
Negative fair value of derivatives	746	-	746	-	746

(SR'000)

25 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 Sauid 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.

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.

	2017		2016 (Restated)	
	Total capital ratio %	**Tier I capital ratio %**	Total capital ratio %	Tier I capital ratio %
Capital adequacy ratio	**44.02**	**43.97**	48.70	42.61

27 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 287 million (31 December 2016: SR 138 million).

The Company has outstanding guarantee of SR 82.9 million (31 December 2016: SR 39.4 million) submitted in favour of GAZT for appeal filled by the Company.

The Company is committed to investment in joint venture projects amounting to SR 5.2 million (31 December 2016: SR 52 million).

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

	2017	2016
Within 1 year	**659**	1,900
Over 1 year	**909**	-
	1,568	1,900

(SR'000)

28 PROSPECTIVE CHANGE IN ACCOUNTING STANDARDS

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

Following is a brief on the new IFRS and amendments to IFRS effective for annual periods beginning on or after 1 January 2017.

	Effective for annual periods beginning on or after
IFRS 9, Financial instruments	1 January 2018
IFRS 15, Revenue from contracts with customers	1 January 2018
Amendments to IFRS 2	1 January 2018
IFRS 16, Leases	1 January 2019

Implementation and Impact of IFRS 9:

Implementation strategy:

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

Classification and measurement:

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

The majority of financial assets that are classified as loans and receivables and are measured at amortised cost under IAS 39 are expected to be measured at amortised cost under IFRS 9 as well.

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

28 PROSPECTIVE CHANGE IN ACCOUNTING STANDARDS (CONTINUED)

Impairment:

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

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

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

- **Stage 1:** Performing assets: Financial asset(s) that have not significantly deteriorated in credit quality since origination. The impairment allowance will be recorded based on 12 months ECL.
- **Stage 2:** Underperforming assets: Financial asset(s) that have significantly deteriorated in credit quality since origination. This credit quality assessment is made by comparing the remaining lifetime PD as at reporting date with the remaining lifetime PD point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations). The impairment allowance will be recorded based on lifetime ECL.
- **Stage 3:** Impaired assets: For Financial asset(s) that are impaired, the Company will recognise the impairment allowance based on lifetime ECL.

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

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

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

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

Hedge accounting:

The general hedge accounting requirements aim to simplify hedge accounting, creating a stronger link with risk management strategy and permitting hedge accounting to be applied to a greater variety of hedging instruments and risks. However, they do not explicitly address macro hedge accounting strategies, which are particularly important for Companies. As a result, IFRS 9 allows an accounting policy choice to continue to apply hedge accounting requirements of IAS 39 instead of the requirements of IFRS 9.

Based on the analysis performed to date, the Company expects to exercise the accounting policy choice to continue IAS 39 hedge accounting requirements.

28 PROSPECTIVE CHANGE IN ACCOUNTING STANDARDS (CONTINUED)

Overall expected impact:

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

- According to transitional provisions for initial application of IFRS 9, the Company is allowed to recognise any difference between previous carrying amount under IAS 39 and the carrying amount at the beginning of the annual reporting period that includes the date of initial application in opening retained earnings. Accordingly, the overall effect is approximated to be SR 37.8 million on the date of initial application in opening retained earnings arising due to application of expected credit loss model as against Incurred loss model;
- Furthermore and as a result, the Company's Tier 1 ratio will be impacted primarily from potential increase in credit impairment provisions
- Based on the balances as at 31 December 2017, the day 1 impact of IFRS 9 (applicable from 1 January 2018) would be an estimated reduction of approximately 1.43% in Capital Adequacy Ratio which would be transitioned over five years in accordance with SAMA guidelines. Further key impact worth highlighting are as follow:
    - Gains or losses realised on the sale of equity instruments classified as FVOCI will no longer be transferred to profit or loss on sale, but instead reclassified below the line from the FVOCI reserve to retained earnings.
- The new standard also introduces extended disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Company's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Governance and controls:

The Governance structure and controls is currently under implementation in line with the IFRS 9 Guidance document applicable to Saudi Financial Institutions. These Guidelines require Financial Institutions to establish a Board approved Governance framework with detailed policies and controls, including roles and responsibilities. The Company has a centrally managed IFRS 9 programme, which includes subject matter experts on methodology, data sourcing and modelling, IT processing and reporting. The Company's work to date has covered performing an assessment of the population of financial instruments impacted by the classification and measurement requirements of IFRS 9 and developing an impairment methodology to support the calculation of the Expected Credit Loss (ECL) allowance. Specifically, during 2017 the Company conducted business model assessments and financial instrument's contractual cash flow analysis, developed its approach for assessing significant increase in credit risk ("SICR"), incorporating forward looking information, including macro-economic factors and preparing the required IT systems and process architecture. The Company has performed a full end-to-end parallel run based on 31 December 2017 data to assess procedural readiness. Overall governance of the program's implementation is through the IFRS 9 Steering Committee and includes representation from Finance, Risk and IT. The Company is in the process of enhancing its governance framework to implement appropriate validations and controls over new key processes and significant areas of judgment such as SICR determining and applying forward-looking information in multiple economic scenarios and computation of ECL.

28 PROSPECTIVE CHANGE IN ACCOUNTING STANDARDS (CONTINUED)

Caveat:

The estimated decrease in shareholders' equity includes the impact of both balance sheet classification and measurement changes and the increase to credit impairment provisions compared to those applied at 31 December 2017 under IAS 39. The assessment above is a point in time estimate and is not a forecast. The actual effect of the implementation of IFRS 9 on the Company could vary significantly from this estimate. The Company continues to refine models, methodologies and controls, and monitor developments in regulatory rule making in advance of IFRS 9 adoption on 1 January 2018. All estimates are based on the Company's current interpretation of the requirements of IFRS 9, reflecting industry guidance and discussions to date.

IFRS 15 Revenue from Contracts with Customers:

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

Amendments to IFRS 2:

Amendments to IFRS 2 - "Share-based Payment", applicable for the period beginning on or after 1 January 2018. The amendments cover classification and measurement of three accounting areas, first, measurement of cash-settled share-based payments, second, classification of share-based payments settled net of tax withholdings, and third, accounting for a modification of a share-based payment from cash-settled to equity-settled. The amendment has no impact on the Company.

IFRS 16 Leases:

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. The Company is currently assessing the implication and effects of adopting IFRS 16

(SR'000)

29 COMPARATIVE INFORMATION

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

Statement of financial position	Note	As disclosed previously	Current presentation	Adjustment
Murabaha receivable, net	29(a)	420,704	432,042	11,338
Ijara receivable, net	29(a)	2,489,780	2,537,413	47,633
Ijara mawsofa fi athemmah receivable, net	29(a)	119,725	120,218	493
Prepayments and other assets	29(a)	94,385	34,921	(59,464)
Accrued expenses and other liabilities	29(b)	50,859	40,392	(10,467)
Bank borrowings	29(b)	2,091,803	2,102,270	10,467

29(a) Reclassification of accrued income from prepayments and other assets to Murabaha, Ijara and Ijara mawsofa fi athemmah receivable.

29(b) Reclassification of accrued profit from accrued expenses and other liabilities to bank borrowings.

30 CHANGE IN ACCOUNTING POLICY

Effective from 1 January 2017, based on the circular issued by SAMA in relation to the "Accounting of Zakat and Income Tax", the Company amended its accounting policy to charge Zakat and income tax to retained earnings. Previously, Zakat and income tax was calculated quarterly and annually, and charged to the statement of profit or loss.

In addition, this change also resulted in derecognising deferred tax asset previously recognised by the Company under requirements of IAS 12.

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30 CHANGE IN ACCOUNTING POLICY (CONTINUED)

The change in the accounting policy has the following impacts on the line items of financial statements:

31 December 2016	As previously reported 31 December 2016	Restatement	Amount as restated at 31 December 2016
Zakat for the period – statement of profit or loss	(2,599)	2,599	-
Income tax for the period – statement of Profit or Loss	(694)	694	-
Profit for the period	105,747	3,293	109,040
Total comprehensive income	104,809	3,293	108,102
Earnings per share (SR)	1.17	0.04	1.21
Deferred tax asset	1,916	(1,916)	-
Retained earnings	193,035	(1,916)	191,119
Total assets	3,291,433	(1,916)	3,289,517
Total shareholders' equity	1,135,188	(1,916)	1,133,272
Total liabilities and shareholders' equity	3,291,433	(1,916)	3,289,517
Capital adequacy ratio:			
Total capital ratio (%)	48.70	-0.01	48.69
Tier I capital ratio (%)	42.61	-0.01	42.60

31 December 2015	As previously reported 31 December 2015	Restatement	Amount as restated at 31 December 2015
Retained earnings	165,363	(1,503)	163,860
Total shareholders' equity	1,097,879	(1,503)	1,096,376

31. 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 through short term market placements. It also provides support services to the business functions.

The Company's total assets and liabilities at 31 December 2017 and 31 December 2016 and its total operating income, expenses and net income for the years then ended are as follows:

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31. SEGMENT INFORMATION (CONTINUED)

	Retail	Corporate	Head office	Total
31 December 2017				
Revenue	**149,723**	**125,680**	**--**	**275,403**
Expenses	**60,720**	**59,079**	**52,350**	**172,149**
Segment profit (loss)	**89,003**	**66,601**	**(52,350)**	**103,254**
Total assets	**1,754,847**	**1,512,654**	**59,579**	**3,327,080**
Total liabilities	**1,104,028**	**1,004,040**	**49,716**	**2,157,784**
31 December 2016				
Revenue	139,688	134,159	--	273,847
Expenses	55,847	59,469	49,491	164,807
Segment profit (loss)	83,841	74,690	(49,491)	109,040
Total assets	1,683,399	1,549,686	56,432	3,289,517
Total liabilities	1,110,403	1,004,771	41,071	2,156,245

32. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on 11 Jumada'II 1439H Company (corresponding to 27 February 2018).