

**AMLAK INTERNATIONAL FOR  
REAL ESTATE FINANCE COMPANY**  
(A Saudi Closed Joint Stock Company)  
**CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)**  
**For the three-month and six-month periods ended**  
**30 June 2019**  
together with the  
**Independent Auditor's Review Report**



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

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

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# Independent auditor's report on review of the condensed interim financial statements

To the shareholders of Amlak International for Real Estate Finance Company

## Introduction

We have reviewed the accompanying 30 June 2019 condensed interim financial statements of Amlak International for Real Estate Finance Company ("the Company"), which comprises:

- the condensed interim statement of financial position as at 30 June 2019;
- the condensed interim statement of profit or loss for the three-month and six-month periods ended 30 June 2019;
- the condensed interim statement of comprehensive income for the three-month and six-month periods ended 30 June 2019;
- the condensed interim statement of changes in equity for the six-month period ended 30 June 2019;
- the condensed interim statement of cash flows for the six-month period ended 30 June 2019; and
- the notes to the condensed interim financial statements.

Management is responsible for the preparation and presentation of these condensed interim financial statements in accordance with the International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these condensed interim financial statements based on our review.

## Scope of review

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

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 June 2019 condensed interim financial statements of the Company are not prepared, in all material respects, in accordance with IAS 34 as endorsed in the Kingdom of Saudi Arabia.

**For KPMG Al Fozan & Partners**  
**Certified Public Accountants**

**Fahad Mubark Aldossari**  
License No: 469

Al Riyadh, 5 Dhul-Hijjah 1440H  
Corresponding to: 6 August 2019



**AMLAK INTERNATIONAL FOR REAL ESTATE FINANCE COMPANY**  
**(A Saudi Closed Joint Stock Company)**  
**CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION**  
**As at 30 June 2019**  
**(SR '000)**

		30 June 2019 <u>(Unaudited)</u>	31 December 2018 <u>(Restated)</u> <u>(Audited)</u>
	<i>Note</i>		
<b><u>ASSETS</u></b>			
Cash and cash equivalents		67,480	15,965
Murabaha receivables, net	5	85,824	108,256
Ijara receivables, net	6	2,933,492	2,902,822
Ijara mawsofa fi athemmah receivables, net	7	63,873	79,662
Investments		12,827	12,484
Prepayments and other assets		100,763	106,984
Positive fair value of derivatives		453	1,087
Deferred tax asset	10	509	516
Investment in joint ventures	8	5,050	7,922
Property and equipment, net		56,664	27,838
<b>TOTAL ASSETS</b>		<b><u>3,326,935</u></b>	<b><u>3,263,536</u></b>
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>			
Account payables and other accruals	9	102,625	92,086
Negative fair value derivatives		3,197	--
Zakat and income tax payable	10	33,004	36,790
Borrowings	11	2,027,064	1,994,132
Employees' end of service benefits		15,053	13,618
<b>TOTAL LIABILITIES</b>		<b><u>2,180,943</u></b>	<b><u>2,136,626</u></b>
Share capital	13	906,000	906,000
Statutory reserve		61,415	61,415
Fair value reserve		--	(409)
Cash flow hedge reserve		(2,745)	1,087
Retained earnings		181,322	158,817
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b><u>1,145,992</u></b>	<b><u>1,126,910</u></b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b><u>3,326,935</u></b>	<b><u>3,263,536</u></b>

**AMLAK INTERNATIONAL FOR REAL ESTATE FINANCE COMPANY**  
(A Saudi Closed Joint Stock Company)  
**CONDENSED INTERIM STATEMENT OF PROFIT OR LOSS (UNAUDITED)**  
For the three-month and six-month periods ended 30 June 2019  
(SR '000)

		For the three-month period ended 30 June		For the six-month period ended 30 June	
			2018		2018
	<i>Note</i>	2019	(Restated)	2019	(Restated)
<b>INCOME</b>					
Income from murabaha contracts		1,985	3,832	4,102	9,976
Income from ijara contracts		63,520	56,329	126,065	114,029
Income from ijara mawsofa fi athemmah contracts		1,059	1,555	2,351	3,490
Gain on sale of portfolio		(38)	--	381	--
Fees and commission income		2,365	1,225	4,662	1,916
<b>Total income from Murabaha, Ijara and Ijara mawsofa fi athemmah</b>		<b>68,891</b>	<b>62,941</b>	<b>137,561</b>	<b>129,411</b>
Fee expense		(952)	(403)	(1,524)	(690)
Borrowing costs		(23,222)	(21,862)	(47,362)	(43,419)
<b>Net income from ijara, murabaha and ijara mawsofa fi athemmah</b>		<b>44,717</b>	<b>40,676</b>	<b>88,675</b>	<b>85,302</b>
<b>Other operating income</b>					
Other Income		250	19	593	226
		<b>44,967</b>	<b>40,695</b>	<b>89,268</b>	<b>85,528</b>
<b>OPERATING EXPENSES</b>					
Depreciation and write off		(618)	(552)	(1,249)	(1,100)
General and administrative expenses	15	(19,047)	(16,706)	(35,887)	(32,765)
Selling and marketing expenses	16	(2,568)	(2,109)	(5,205)	(3,595)
Impairment charge for credit losses, net		1,799	1,914	1,678	--
<b>Profit before zakat and income tax</b>		<b>24,533</b>	<b>23,242</b>	<b>48,605</b>	<b>48,068</b>
<b>Zakat and income tax expense:</b>					
- Current period		(4,854)	(658)	(8,723)	(1,569)
- Prior period		--	--	(16,608)	--
<b>NET PROFIT FOR THE PERIOD</b>		<b>19,679</b>	<b>22,584</b>	<b>23,274</b>	<b>46,499</b>
Basic and diluted earnings per share (SR)	14	<b>0.22</b>	<b>0.25</b>	<b>0.26</b>	<b>0.51</b>

**AMLAK INTERNATIONAL FOR REAL ESTATE FINANCE COMPANY**  
(A Saudi Closed Joint Stock Company)  
**CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)**  
For the three-month and six-month periods ended 30 June 2019  
(SR '000)

	<b>For the three-month period ended 30 June</b>		<b>For the six-month period ended 30 June</b>	
	<u>2019</u>	<u>2018</u> (Restated)	<u>2019</u>	<u>2018</u> (Restated)
<b>NET PROFIT FOR THE PERIOD</b>	<b>19,679</b>	<b>22,584</b>	<b>23,274</b>	<b>46,499</b>
<b>OTHER COMPREHENSIVE (LOSS) / INCOME</b>				
<i>Items that may be reclassified to profit or loss in subsequent periods:</i>				
Net movement in cash flow hedges	(3,664)	407	(3,832)	874
<i>Items that will not be reclassified to profit or loss in subsequent periods:</i>				
Change in fair value of investments held at Fair Value through Other Comprehensive Income (FVOCI)	--	--	--	(1,680)
Actuarial loss on defined benefit plans	(360)	(64)	(360)	(64)
<b>Total other comprehensive (loss) / income</b>	<b>(4,024)</b>	<b>343</b>	<b>(4,192)</b>	<b>(870)</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>15,655</b>	<b>22,927</b>	<b>19,082</b>	<b>45,629</b>

**AMLAK INTERNATIONAL FOR REAL ESTATE FINANCE COMPANY**  
(A Saudi Closed Joint Stock Company)  
**CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)**  
For the six-month period ended 30 June 2019  
(SR '000)

	<u>Share capital</u>	<u>Statutory reserve</u>	<u>Unrealised gain/(loss) on available for sale investment</u>	<u>Unrealised gain/(loss) on investment at FVOCI</u>	<u>Cash flow hedge reserve</u>	<u>Retained earnings</u>	<u>Total</u>
<b>Balance at 31 December 2018 – as previously reported (audited)</b>	906,000	61,415	--	(409)	1,087	158,301	1,126,394
Impact of change in accounting of zakat and income tax (note 4)	--	--	--	--	--	516	516
<b>Balance at 31 December 2018 – as restated</b>	906,000	61,415	--	(409)	1,087	158,817	1,126,910
Impact of adoption of new standard and other adjustments at 1 January 2019 (note 3)	--	--	--	409	--	(409)	--
Net profit for the period	--	--	--	--	--	23,274	23,274
Other comprehensive loss	--	--	--	--	(3,832)	(360)	(4,192)
Total comprehensive (loss) / income	--	--	--	--	(3,832)	22,914	19,082
<b>Balance at 30 June 2019</b>	<b>906,000</b>	<b>61,415</b>	<b>--</b>	<b>--</b>	<b>(2,745)</b>	<b>181,322</b>	<b>1,145,992</b>
Balance at 31 December 2017 – as previously reported (audited)	903,000	51,654	887	--	380	213,375	1,169,296
Impact of change in accounting of zakat and income tax (note 4)	--	--	--	--	--	508	508
Balance at 31 December 2017 – as restated	903,000	51,654	887	--	380	213,883	1,169,804
Impact of adopting new standard as at 1 January 2018	--	--	(887)	887	--	(37,806)	(37,806)
Net profit for the period	--	--	--	--	--	46,499	46,499
Other comprehensive (loss) / income	--	--	--	(1,680)	874	(64)	(870)
Total comprehensive (loss) / income	--	--	--	(1,680)	874	46,435	45,629
Dividend	--	--	--	--	--	(67,725)	(67,725)
Increase in share capital	3,000	--	--	--	--	--	3,000
Balance at 30 June 2018 - as restated	906,000	51,654	--	(793)	1,254	154,787	1,112,902

**AMLAK INTERNATIONAL FOR REAL ESTATE FINANCE COMPANY**  
(A Saudi Closed Joint Stock Company)  
**CONDENSED INTERIM STATEMENT OF CASH FLOW (UNAUDITED)**  
For the six-month period ended 30 June 2019  
(SR '000)

		For the six-month period ended 30 June	
	<i>Note</i>	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities:</b>			
Net profit for the period before zakat and income tax expense		48,605	48,068
<i>Non-cash adjustment to reconcile profit before zakat and income tax for the period to net cash from operating activities</i>			
Depreciation		1,249	1,100
Borrowing facility cost and charges		47,362	43,419
Employees' end of service benefits		1,456	1,248
Impairment allowance for credit losses		(1,678)	--
Other income		(593)	--
		<u>96,401</u>	<u>93,835</u>
<i>Decrease / (increase) in operating assets</i>			
Murabaha receivables		23,181	54,087
Ijara receivables		(29,828)	87,258
Ijara mawsofa fi athemmah receivables		15,876	35,083
Prepayments and other assets		3,201	(64)
<i>Increase / (decrease) in operating liabilities</i>			
Accrued expenses and other liabilities		(10,688)	1,535
<b>Cash generated from operations</b>		<u>98,143</u>	<u>271,734</u>
Borrowing costs paid during the period		(46,612)	(40,869)
Employees' end of service benefits paid during the period		(381)	(2,496)
Zakat and income tax paid		(29,470)	(3,331)
<b>Net cash generated from operating activities</b>		<u>21,680</u>	<u>225,038</u>
<b>Cash flows from investing activities</b>			
Purchase of property and equipment		(5,682)	(1,666)
Proceeds from investments in joint ventures	8	3,122	12,580
Investments in joint ventures		--	(1,235)
<b>Net cash (used in) / generated by investing activities</b>		<u>(2,560)</u>	<u>9,679</u>
<b>Cash flows from financing activities</b>			
Repayment against borrowings		(475,605)	(569,694)
Proceeds from borrowings		508,000	433,562
Dividend paid		--	(66,810)
<b>Net cash generated / (used in) from financing activities</b>		<u>32,395</u>	<u>(202,942)</u>
<b>Net increase in cash and cash equivalents</b>		<b>51,515</b>	<b>31,775</b>
Cash and cash equivalents at beginning of the period		15,965	29,634
<b>Cash and cash equivalents at end of the period</b>		<u><b>67,480</b></u>	<u><b>61,409</b></u>
<b>Non-cash supplemental information:</b>			
Net changes in fair value of cash flow hedge		(3,832)	874
Change in fair value of investments at FVOCI		--	(1,680)
Right-of-use-asset		24,358	--
Lease liability		21,227	--

The attached notes 1 to 22 form part of these condensed interim financial statements.

**Amlak International for Real Estate Finance Company**  
**(A Saudi Closed Joint Stock Company)**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**  
**For the three-month and six-month periods ended 30 June 2019**  
**(SR'000)**

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

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

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

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

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

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

**2. BASIS OF PREPARATION**

**2.1 Statement of compliance**

The condensed interim consolidated financial statements of the Company as at and for the period ended 30 June 2019 have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organisation for Certified Public Accountants ("SOCPA").

The financial statements of the Company as at and for the period and year ended 31 March 2019 and 31 December 2018, respectively, were prepared in compliance with IAS 34 and the International Financial Reporting Standards ("IFRS") respectively, as modified by SAMA for the accounting of zakat and income tax (relating to the application of IAS 12 – "Income Taxes" and International Financial Reporting Interpretation Committee Interpretation ("IFRIC") 21 – "Levies" so far as these relate to zakat and income tax) and the Regulations for Companies in the Kingdom of Saudi Arabia.

On 17 July 2019, SAMA instructed the financing companies in the Kingdom of Saudi Arabia to account for the zakat and income taxes in the statement of income. This aligns with the IFRS and its interpretations as issued by the International Accounting Standards Board ("IASB") and as endorsed in the Kingdom of Saudi Arabia and with the other standards and pronouncements that are issued by the Saudi Organisation for Certified Public Accountants ("SOCPA") (collectively referred to as "IFRS as endorsed in KSA").

Accordingly, the Company changed its accounting treatment for zakat and income tax by retrospectively adjusting the impact in line with International Accounting Standard 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, as disclosed in note 4 to the condensed interim financial statements including the effects of this change.



**AMLAK INTERNATIONAL FOR REAL ESTATE FINANCE COMPANY**  
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**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**  
For the three-month and six-month periods ended 30 June 2019  
(SR '000)

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

**2.2 Basis of measurement**

These condensed interim financial statements have been prepared under the historical cost convention except for the measurement of investments and derivatives, which are carried at fair value.

**2.3 Functional and presentation currency**

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

**3. IMPACT OF CHANGE IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARD**

Effective 1 January 2019, the Company has adopted IFRS 16 - Leases. Accounting policy for the new standard is disclosed in this note of these condensed interim financial statements.

IFRS 16 Leases replaces the guidance on leases, which was included in IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC 15 "Operating Leases – Incentives" and SIC 27 "Evaluating the Substance of Transactions in the Legal Form of a Lease".

**Before 1 January 2019, the Company followed the below accounting policy for leases in which the Company was a lessee:**

*Operating leases*

Where the Company was a lessee, rental payments were recognised as expenses in the statement of profit or loss on a straight-line method basis over the lease contract period.

**Accounting policy applicable on and after 1 January 2019:**

On initial recognition at inception of the contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is identified if most of the benefits are flowing to the Company and the Company can direct the usage of such assets.

*Right of Use Assets*

The right of use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain re-measurement of the lease liability.

Generally, right of use assets would be equal to the lease liability. However, if there are additional costs such as site preparation, non-refundable deposits, application money, other expenses related to transaction etc. need to be added to the right of use assets' value.

*Lease Liability*

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, the Company's incremental borrowing rate.

After the commencement date, Company measures the lease liability by:

1. Increasing the carrying amount to reflect interest on the lease liability.
2. Reducing the carrying amount to reflect the lease payments made and;
3. Re-measuring the carrying amount to reflect any re-assessment or lease modification.

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**(SR '000)**

**3. IMPACT OF CHANGE IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARD (CONTINUED)**

IFRS 16 was issued in January 2016 and is effective for annual periods commencing on or after 1 January 2019. IFRS 16 stipulates that all leases and the associated contractual rights and obligations should generally be recognize in the Company's Financial Position, unless the term is 12 months or less or the lease for low value asset. Thus, the classification required under IAS 17 "Leases" into operating or finance leases is eliminated for Lessees. For each lease, the lessee recognizes a liability for the lease obligations incurred in the future. Correspondingly, a right to use the leased asset is capitalized, which is generally equivalent to the present value of the future lease payments plus directly attributable costs and which is amortized over the useful life.

The Company has opted for the modified retrospective application permitted by IFRS 16 upon adoption of the new standard. During the first time application of IFRS 16 to operating leases, the right to use the leased assets was measured at the amount of lease liability, using the lessee's incremental borrowing rate at the time of first time application.

IFRS 16 transition disclosures also requires the Company to present the reconciliation of the off-balance sheet lease obligations as of 31 December 2018 are reconciled as follows to the recognized the lease liabilities as of 1 January 2019.

**RECONCILIATION OF LEASE LIABILITIES**

	1 January 2019
Off-balance sheet lease obligations as of 31 December 2018	30,549
Current leases with a lease term of 12 months or less & low-value leases	(26,980)
Operating lease obligations as of 1 January 2019 (Gross without discounting)	3,569
Operating lease obligations as of 1 January 2019 (net, discounted)	3,262
Lease liabilities due to initial application of IFRS 16 as 1 January 2019	<u>3,262</u>

As of 1 January 2019, the Statement of Financial Position is impacted by IFRS 16 as follow:

- Right-of-use asset of SR 3.3 million is included in the "Property and equipment".
- Lease liability of SR 3.3 million is included in the "Accrued expenses and other liabilities".

As at 1 January 2019, the Company has rectified the classification of its investment in SAIB Saraya Tower Real Estate Development Fund from fair value through other comprehensive income to fair value through profit or loss (FVTPL). Accordingly, fair value reserve has been taken to retained earnings.

**4. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies used in the preparation of the condensed interim financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31 December 2018 except for the policies in note 3 and the changes in the accounting for zakat and income tax as explained below:

***Change in the accounting for zakat and income tax:***

As mentioned above, the basis of preparation has been changed for the period ended 30 June 2019 as a result of the issuance of latest instructions from SAMA dated 17 July 2019. Previously, zakat and income tax were recognized in the statement of changes in equity as per the SAMA circular no 381000074519 dated 11 April 2017. With the latest instructions issued by SAMA dated 17 July 2019, the zakat and income tax shall be recognized in the statement of profit or loss. The Company has accounted for this change in the accounting for zakat and income tax retrospectively (see below in this note) including the effects of the above change. The change has resulted in reduction of reported income of the Company for the period ended 30 June 2018 by SR 1.56 million. The change has had no impact on the statement of cash flows for the period ended 30 June 2018.

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**(SR '000)**

**4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Below is the accounting policies on zakat and income tax:

**Income tax:**

The income tax expense or credit for the period is the tax payable on the current period's taxable income, based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company and its subsidiary operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Adjustments arising from the final income tax assessments are recorded in the period in which such assessments are made. The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted for the changes in deferred tax assets and liabilities attributable to the temporary differences and unused tax losses, if any.

**IFRIC 23 Uncertainty over Income Tax Treatment:**

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty needs to be followed.

**Deferred income tax:**

Deferred income tax is provided using the liability method on temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for the taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amounts of assets and liabilities using the tax rates enacted or substantively enacted at the reporting date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available and the credits can be utilized. Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefits will be realized.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**  
For the three-month and six-month periods ended 30 June 2019  
(SR '000)

**4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Deferred income tax (continued):**

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised

**Zakat:**

The Company is subject to zakat in accordance with the regulations of the General Authority of Zakat and Income Tax ("GAZT"). Zakat expense is charged to the profit or loss. Zakat is not accounted for as income tax and as such no deferred tax is calculated relating to zakat.

**Effect of change in accounting of zakat and income tax:**

The change in the accounting treatment for zakat and income tax as explained this note has the following impact on the line items of the statement of financial position, statements of income and statement of changes in shareholders' equity:

As at and for the six-month period ended 30 June 2018:

	<b><u>Before restatement</u></b>	<b><u>Effect of restatement</u></b>	<b><u>As restated</u></b>
<i>Statement of financial position</i>			
Deferred tax asset	--	499	499
<i>Statement of profit or loss</i>			
Zakat and income tax expenses	--	(1,569)	(1,569)
Earnings per share	0.53	(0.02)	0.51
<i>Statement of changes in Equity</i>			
Provision for zakat and income tax (retained earnings)	(1,560)	1,560	--

As at and for the three-month period ended 30 June 2018:

	<b><u>Before restatement</u></b>	<b><u>Effect of restatement</u></b>	<b><u>As restated</u></b>
<i>Statement of financial position</i>			
Deferred tax asset	--	499	499
<i>Statement of profit or loss</i>			
Zakat and income tax expenses	--	(658)	(658)
Earnings per share	0.26	(0.01)	0.25
<i>Statement of changes in Equity</i>			
Provision for zakat and income tax (retained earnings)	(642)	642	--

As at 31 December 2018:

	<b><u>Before restatement</u></b>	<b><u>Effect of restatement</u></b>	<b><u>As restated</u></b>
<i>Statement of financial position</i>			
Deferred tax asset	--	516	516
<i>Statement of changes in Equity</i>			
Provision for zakat and income tax (retained earnings)	158,301	516	158,817

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**4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Effect of change in accounting of zakat and income tax (continued):*

As at 1 January 2018:

	<u>Before restatement</u>	<u>Effect of restatement</u>	<u>As restated</u>
<i>Statement of financial position</i>			
Deferred tax asset	--	508	508
<i>Statement of changes in Equity</i>			
Provision for zakat and income tax (retained earnings)	175,569	508	176,077

**5. MURABAHA RECEIVABLES, NET**

	<b>30 June 2019</b> <b><u>(Unaudited)</u></b>	<b>31 December</b> <b>2018</b> <b><u>(Audited)</u></b>
Gross Murabaha receivables	90,285	113,466
Less: Impairment allowance for credit losses	<u>(4,461)</u>	<u>(5,210)</u>
<b>Murabaha receivables, net</b>	<b><u>85,824</u></b>	<b><u>108,256</u></b>

**6. IJARA RECEIVABLES, NET**

	<b>30 June 2019</b> <b><u>(Unaudited)</u></b>	<b>31 December</b> <b>2018</b> <b><u>(Audited)</u></b>
Gross Ijara receivables	4,063,921	3,948,092
Less: Unearned income	<u>(1,048,804)</u>	<u>(962,803)</u>
	3,015,117	2,985,289
Less: Impairment allowance for credit losses	<u>(81,625)</u>	<u>(82,467)</u>
<b>Ijara receivables, net</b>	<b><u>2,933,492</u></b>	<b><u>2,902,822</u></b>

During the period ended 30 June 2019, the Company sold its Ijara receivables amounted to SR 102 million (30 June 2018: SR 104 million) and entered into an agency contract to services these receivables.

**6.1 The maturity profile of Ijara receivables is as follows:**

	<b>30 June 2019 (Unaudited)</b>			
	<b>Not later than one year</b>	<b>Later than one year but not later than five years</b>	<b>Later than five years</b>	<b>Total</b>
Ijara receivables	1,046,591	2,030,514	986,816	4,063,921
Less: Unearned income	<u>(251,739)</u>	<u>(525,085)</u>	<u>(271,980)</u>	<u>(1,048,804)</u>
	794,852	1,505,429	714,836	3,015,117
Less: Impairment allowance for credit losses				<u>(81,625)</u>
<b>Ijara receivables, net</b>				<b><u>2,933,492</u></b>

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**6. IJARA RECEIVABLES, NET (CONTINUED)**

	31 December 2018 (Audited)			
	Not later than one year	Later than one year but not later than five years	Later than five years	Total
Ijara receivables	1,011,366	2,048,796	887,930	3,948,092
Less: Unearned income	(234,500)	(481,066)	(247,237)	(962,803)
	<u>776,866</u>	<u>1,567,730</u>	<u>640,693</u>	<u>2,985,289</u>
Less: Impairment allowance for credit losses				(82,467)
Ijara receivables, net				<u>2,902,822</u>

**7. IJARA MAWSOFA FI ATHEMMAH RECEIVABLES, NET**

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
Gross Ijara mawsofa fi athemmah receivables	103,871	131,864
Less: Unearned income	<u>(39,856)</u>	<u>(51,973)</u>
	64,015	79,891
Less: Impairment allowance for credit losses	<u>(142)</u>	<u>(229)</u>
Ijara mawsofa fi athemmah receivables, net	<u>63,873</u>	<u>79,662</u>

During the period ended 30 June 2019, the Company sold its Ijara mawsofa fi athemmah receivables amounted to SR 18 million (30 June 2018: Nil) and entered into an agency contract to services these receivables.

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

	30 June 2019 (Unaudited)			
	Not later than one year	Later than one year but not later than five years	Later than five years	Total
Ijara mawsofa fi athemmah receivables	10,297	31,195	62,379	103,871
Less: Unearned income	<u>(4,273)</u>	<u>(12,976)</u>	<u>(22,607)</u>	<u>(39,856)</u>
	<u>6,024</u>	<u>18,219</u>	<u>39,772</u>	<u>64,015</u>
Less: Impairment allowance for credit losses				(142)
Ijara mawsofa fi athemmah receivables, net				<u>63,873</u>

  

	31 December 2018 (Audited)			
	Not later than one year	Later than one year but not later than five years	Later than five years	Total
Ijara mawsofa fi athemmah receivables	12,608	43,780	75,476	131,864
Less: Unearned income	<u>(5,674)</u>	<u>(19,515)</u>	<u>(26,784)</u>	<u>(51,973)</u>
	<u>6,934</u>	<u>24,265</u>	<u>48,692</u>	<u>79,891</u>
Less: Impairment allowance for credit losses				(229)
Ijara mawsofa fi athemmah receivables, net				<u>79,662</u>

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**8. INVESTMENTS IN JOINT VENTURES**

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

No new investments in excess of original commitments have been made by the Company after 7 November 2014 to comply with the real estate financing laws.

The 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.

Movement of investment in joint ventures is as follows:

<b>For the six-month period ended 30 June 2019 (Unaudited)</b>	<b>Location</b>	<b>% of shareholding</b>	<b>Opening balance</b>	<b>Additions</b>	<b>Share in net income</b>	<b>Distributions</b>	<b>Closing balance</b>
a) Dar wa Emar, Rahba	AlRahba, AlKhobar	90%	5,050	--	--	--	5,050
b) AbdulAziz Al Qassim, Malga III	Malga, Riyadh	40%	2,872	--	250	(3,122)	--
			<u>7,922</u>	<u>--</u>	<u>250</u>	<u>(3,122)</u>	<u>5,050</u>

<b>For the year ended 31 December 2018 (Audited)</b>	<b>Location</b>	<b>% of shareholding</b>	<b>Opening balance</b>	<b>Additions</b>	<b>Share in net income</b>	<b>Distributions</b>	<b>Closing balance</b>
a) Dar wa Emar, Rahba	AlRahba, AlKhobar	90%	9,280	--	(240)	(3,990)	5,050
b) AbdulAziz Al Qassim, Malga III	Malga, Riyadh	40%	9,032	1,235	--	(7,395)	2,872
c) Dar wa Emar, Olaya	AlOlaya, AlKhobar	50%	11,218	--	--	(11,218)	--
			<u>29,530</u>	<u>1,235</u>	<u>(240)</u>	<u>(22,603)</u>	<u>7,922</u>

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**9. ACCOUNT PAYABLES AND OTHER ACCRUALS**

	<b>30 June 2019 (Unaudited)</b>	<b>31 December 2018 (Audited)</b>
Payable to the Ministry of Housing	30,849	26,278
Financing to customers (note 9.1)	26,759	21,163
Lease liabilities (note 3)	21,227	--
Salaries and employee related expenses	10,581	10,205
Accrued expenses	6,140	6,330
Amount received from Murabaha and Ijara customers (note 9.2)	2,893	8,857
Others	4,176	19,253
	<u>102,625</u>	<u>92,086</u>

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

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

**10. ZAKAT AND INCOME TAX**

**10.1 Zakat and income tax assessment and status update**

Zakat and income tax declaration for all the years up to 2018 have been filed with the General Authority of Zakat and Tax ("GAZT") and acknowledgement certificates have been obtained.

During the six-month period ended 30 June 2019, apart from following there is no change in the zakat and income tax status of the Company as disclosed in the annual financial statements for the year ended 31 December 2018.

**2007 to 2012**

The Company has signed a settlement agreement with GAZT in respect of zakat and income tax assessment years from 2007 to 2013. Pursuant to this settlement agreement, the Company paid SR 12.6 million.

**2013 to 2017**

The Company has signed a settlement agreement with GAZT in respect of zakat assessment years from 2013 to 2017. Pursuant to this settlement agreement, the Company is liable to pay an amount of SR 33.6 million in six instalments over five years as the final settlement for its zakat assessment. During the period ended 30 June 2019, the Company has paid the first instalment of SR 6.7 million to GAZT and recorded a liability for remaining installments.

**2018**

Under the settlement agreement, GAZT has defined the zakat computation method for the year 2018. Accordingly, the Company's recorded zakat liability of SR 9.5 million for the year 2018.

**2019**

The Company has recorded zakat provision for the six-month period ended 30 June 2019 in accordance with new zakat regulations issued on 17 March 2019.



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**10. ZAKAT AND INCOME TAX (CONTINUED)**

**10.2 Deferred tax**

Deferred tax asset pertain to deductible temporary differences arising from impairment allowance for expected credit loss, depreciation of property and equipment and end of service benefits charge. Movements of the account balance accounted are as follows:

	30 June 2019	31 December 2018 (Restated)	30 June 2018 (Restated)
Opening balance	516	508	508
(Reversal) / origination of temporary differences	(7)	8	(9)
Closing balance	509	516	499

**11. BORROWINGS**

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

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
<i>Borrowings:</i>		
- Current	794,155	809,736
- Non-current	1,232,909	1,184,396
	2,027,064	1,994,132

As at 30 June 2019, current portion of borrowings includes accrued profit amounted to SR 10 million (31 December 2018: SR 9.5 million).

**12. DIVIDEND**

During the six-month period ended 30 June 2019, the shareholders have not approved, declared and paid any dividend. (30 June 2018: SR 67.7 million).

**13. SHARE CAPITAL**

As at 30 June 2019, the Company's authorised, issued and paid-up share capital was SR 906 million (31 December 2018: SR 906 million) divided into 90.6 million shares (31 December 2018: 90.6 million shares) with a nominal value of SR 10 each.

**14. EARNINGS PER SHARE**

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

	For the three-month period ended 30 June		For the six-month period ended 30 June	
	2019	2018 (Restated)	2019	2018 (Restated)
Net profit for the period	19,679	22,584	23,274	46,499
Weighted average number of ordinary shares (in thousands)	90,600	90,400	90,600	90,400
Basic and diluted earnings per share (SR)	0.22	0.25	0.26	0.51

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**15. GENERAL AND ADMINISTRATIVE EXPENSES**

	<b>For the three-month period ended 30 June</b>		<b>For the six-month period ended 30 June</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Salaries and employees related cost	12,613	12,215	25,347	24,436
Professional fee	1,686	702	2,368	1,436
Others	1,250	1,156	2,308	1,694
Board fee and expenses	1,178	987	2,357	1,516
Rent	986	818	1,055	1,488
IT expenses	584	90	1,200	983
Travelling expenses	364	283	615	503
Communication	240	247	379	390
Maintenance expenses	146	208	258	319
	<b>19,047</b>	<b>16,706</b>	<b>35,887</b>	<b>32,765</b>

**16. SELLING AND MARKETING EXPENSES**

	<b>For the three-month period ended 30 June</b>		<b>For the six-month period ended 30 June</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Outsourcing costs	1,366	680	2,720	1,249
Marketing expenses	858	1,034	1,692	1,659
Insurance	344	395	793	687
	<b>2,568</b>	<b>2,109</b>	<b>5,205</b>	<b>3,595</b>

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**17. RELATED PARTY TRANSACTIONS AND BALANCES**

The related parties of the Company includes its shareholders, subsidiary, affiliated entities, joint ventures, key management personnel and the Board of Directors. In the ordinary course of its activities, the Company transacts business with its related parties on mutually agreed terms.

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

<u>Nature of transactions</u>	<u>Name of related party and relationship</u>	<i>Amounts of transactions</i>			
		<u>For the three-month period ended 30 June</u>		<u>For the six-month period ended 30 June</u>	
		<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
		<u>(Unaudited)</u>	<u>(Audited)</u>	<u>(Unaudited)</u>	<u>(Audited)</u>
Borrowing facility cost and charges	The Saudi Investment Bank (Shareholder)	<b>6,768</b>	6,977	<b>12,855</b>	13,714
Rent expense	Saudi Orix Leasing (Affiliate)	<b>398</b>	410	<b>796</b>	808
Security and other expenses	Saudi Orix Leasing (Affiliate)	<b>68</b>	73	<b>90</b>	85
Salaries and benefits	Key management personnel*	<b>2,011</b>	2,187	<b>6,751</b>	4,790
Board meeting fee and other expenses	Board members	<b>1,178</b>	987	<b>2,357</b>	1,516
Profit Rate Swap (PRS) cost received / paid	The Saudi Investment Bank (Shareholder)	<b>120</b>	(46)	<b>120</b>	2

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

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

Nature of balances and names of related parties	Relationship	Balances	
		30 June 2019 (Unaudited)	31 December 2018 (Audited)
<b>Bank balances:</b>			
The Saudi Investment Bank	Shareholder	16,328	7,809
<b>Due from related parties:</b>			
Alistithmar Capital	Affiliate	1,775	1,775
Tharaa Real Estate Investment	Joint venture	1,029	3,009
<b>Bank borrowings:</b>			
The Saudi Investment Bank	Shareholder	574,362	441,740
<b>Notional amount of PRS:</b>			
The Saudi Investment Bank	Shareholder	50,000	50,000
<b>Financing and advances:</b>			
Key management personnel	Key management	3,774	4,005
<b>Investments:</b>			
SAIB Saraya Tower Real Estate Development Fund	Affiliate	11,934	11,591
<b>Other receivables:</b>			
Amlak International For Real Estate Development	Subsidiary	305	305
Receivable against initial public offering	Shareholders	4,030	3,281
<b>Prepaid rent:</b>			
Saudi Orix Leasing	Affiliate	—	398
<b>Board meeting and other expenses payable</b>			
Board members	Board members	3,631	1,276

**18. FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

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

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

Financial assets consist of cash and cash equivalents, investments, derivatives, Murabaha, Ijara and Ijara mawsofa fi athemmah receivable and other receivables. Financial liabilities consist of borrowings, derivatives and other payables.

***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.

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**18. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

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.

		<u>Fair Value</u>			
	<u>Carrying Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>30 June 2019 (Unaudited)</b>					
<b><u>Financial assets:</u></b>					
Murabaha receivables, net	85,824	--	--	76,169	76,169
Investment at FVTPL – Fund	11,934	--	--	11,934	11,934
Investment at FVOCI – Equity	893	--	--	893	893
Positive fair value of derivatives	453	--	453	--	453
<b><u>Financial Liability:</u></b>					
Negative fair value derivatives	3,197	--	3,197	--	--

		<u>Fair Value</u>			
	Carrying Value	Level 1	Level 2	Level 3	Total
31 December 2018 (Audited)					
<u>Financial assets:</u>					
Murabaha receivables, net	113,466	--	--	93,917	93,917
Investments	12,484	--	--	12,484	12,484
Positive fair value of derivatives	1,087	--	1,087	--	1,087

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

The fair value of Ijara receivables, Ijara mawsofa fi athemmah receivables and borrowings, is approximate to carrying amount as the entire financing portfolio and borrowings are floating rate.

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

**19. CAPITAL ADEQUACY**

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

	30 June 2019 (Unaudited)		31 December 2018 (Audited)	
	Total capital ratio %	Tier I capital ratio %	Total capital ratio %	Tier I capital ratio %
Capital adequacy ratio	45.73%	45.70%	44.46	44.43

**20. COMMITMENTS AND CONTINGENCIES**

The Company has facilities approved but not utilised, indicative offers issued which are under consideration of the customers and due diligence in progress as of the reporting date which have the potential to convert into financing amounting to SR 263.3 million (31 December 2018: SR 96 million).

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**21. 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 in following primary business segments:

**Retail**

These represents finance products granted to high net worth, small and medium sized businesses and individuals.

**Corporate**

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

**Head office**

Head office is responsible for managing the surplus liquidity of the Company and provides support services to the business functions.

The Company's total assets and liabilities at 30 June 2019 and 31 December 2018 and its total revenue, expenses and net profit before zakat and income tax expense for the six-month periods ended 30 June 2019 and 2018 are as follows:

	<u><b>Retail</b></u>	<u><b>Corporate</b></u>	<u><b>Head office</b></u>	<u><b>Total</b></u>
<u><b>For the period ended 30 June 2019</b></u>				
<u><b>(Unaudited)</b></u>				
Revenue	43,690	94,464	--	138,154
Expenses	30,697	58,852	--	89,549
Net profit before zakat and income tax expense	12,993	35,612	--	48,605
<u><b>For the period ended 30 June 2018</b></u>				
<u><b>(Unaudited)</b></u>				
Revenue	41,426	88,211	--	129,637
Expenses	26,382	55,187	--	81,569
Net profit before zakat and income tax expense	15,044	33,024	--	48,068
<u><b>As at 30 June 2019 (Unaudited)</b></u>				
Total assets	965,326	2,236,502	125,107	3,326,935
Total liabilities	588,163	1,468,553	124,227	2,180,943
<u><b>As at 31 December 2018 (Audited)</b></u>				
Total assets (restated)	990,895	2,227,236	45,405	3,263,536
Total liabilities	618,583	1,404,377	113,666	2,136,626

**22. APPROVAL OF THE CONDENSED INTERIM FINANCIAL STATEMENTS**

The condensed interim financial statements have been approved by the Board of Directors on 3 Dhul-Hijjah 1440H (corresponding to 4 August 2019).