Amlak International for Real Estate Finance Company

(A Saudi Closed Joint Stock Company)

FINANCIAL STATEMENTS

31 DECEMBER 2016

Building a better working world

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AUDITORS' REPORT TO THE SHAREHOLDERS OF AMLAK INTERNATIONAL FOR REAL ESTATE FINANCE COMPANY (A SAUDI CLOSED JOINT STOCK COMPANY)

Scope of audit:

We have audited the accompanying statement of financial position of Amlak International for Real Estate Finance Company, a Saudi Closed Joint Stock Company (the "Company") as of 31 December 2016 and the related statements of profit or loss, other comprehensive income, changes in shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management and have been prepared by them in accordance with the requirements of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the financial statements.

Unqualified opinion:

In our opinion, the financial statements taken as a whole:

i) present fairly, in all material respects, the financial position of the Company as of 31 December 2016 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards;

ii) comply with the requirements of the Regulations for Companies and the Company's by-laws in so far as they affect the preparation and presentation of the financial statements.

For Ernst & Young

Fahad M. Al-Toaimi
Certified Public Accountant
Registration No. 354

Riyadh: 29 Jumad Awal 1438H
(26 February 2017)

STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2016

	Notes	2016 (SR '000)	2015 (SR '000)
INCOME			
Income from Ijara contracts		**210,994**	168,737
Income from Murabaha contracts		**39,085**	32,403
Income from Ijara mawsofa fi athemmah contracts		**7,262**	7,704
Realized gain on sale of receivables		**133**	-
Processing and appraisal fees, net		**3,046**	634
INCOME FROM MURABAHA, IJARA AND IJARA MAWSOFA FI ATHEMMAH		**260,520**	209,478
Borrowing facility costs and charges		**(81,809)**	(48,719)
NET INCOME FROM MURABAHA, IJARA AND IJARA MAWSOFA FI ATHEMMAH		**178,711**	160,759
Other operating income			
Arrangement fees		**530**	487
Share in net income from joint ventures	12	**12,797**	20,024
		192,038	181,270
Operating expenses			
General and administrative expenses	4	**(64,627)**	(59,547)
Selling and marketing expenses	5	**(8,920)**	(8,446)
Provision for credit losses		**(9,451)**	(7,416)
PROFIT BEFORE ZAKAT AND INCOME TAX		**109,040**	105,861
Zakat and income tax	15(a)	**(3,293)**	(2,981)
PROFIT FOR THE YEAR		**105,747**	102,880
Basic and diluted earnings per share (SR)	22	**1.17**	1.14

The attached notes 1 to 33 form part of these financial statements.

STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	2016 (SR '000)	2015 (SR '000)
PROFIT FOR THE YEAR		**105,747**	102,880
OTHER COMPREHENSIVE (LOSS) INCOME			
Other comprehensive (loss) income to be reclassified to profit or loss in subsequent periods:			
Net movement in cash flow hedges		**(614)**	6,177
Net movement in fair value of available for sale investments	10	**(324)**	(688)
		(938)	5,489
Other comprehensive (loss) income not to be reclassified to profit or loss in subsequent periods:			
Remeasurement losses on employee terminal benefit		**-**	(487)
Total other comprehensive (loss) income		**(938)**	5,002
TOTAL COMPREHENSIVE INCOME		**104,809**	107,882

The attached notes 1 to 33 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	*31 December 2016 (SR '000)*	*31 December 2015 (SR '000)*
ASSETS			
Bank balances and cash	6	**9,347**	10,346
Murabaha receivables, net	7	**420,704**	407,674
Ijara receivables, net	8	**2,489,780**	2,254,019
Ijara mawsofa fi athemmah receivables, net	9	**119,725**	109,073
Available for sale investment	10	**10,988**	11,312
Positive fair value derivatives	21	**2,582**	3,403
Prepayments, accrued income and others	11	**94,385**	94,773
Deferred zakat and income tax	15(d)	**1,916**	1,503
Investment in joint ventures	12	**112,824**	111,197
Property and equipment	13	**29,182**	27,148
TOTAL ASSETS		**3,291,433**	3,030,448
LIABILITIES AND SHAREHOLDERS' EQUITY			
Accounts payable and accruals	14	**50,859**	66,375
Negative fair value derivatives	21	**746**	953
Zakat and income tax payable	15	**4,003**	3,798
Bank borrowings	16	**2,091,803**	1,854,689
Employees' terminal benefits	18	**8,834**	6,754
TOTAL LIABILITIES		**2,156,245**	1,932,569
SHAREHOLDERS' EQUITY			
Share capital	19	**900,000**	900,000
Statutory reserve	20	**41,329**	30,754
Investment revaluation reserve	10	**(1,012)**	(688)
Cash flow hedge reserve	21	**1,836**	2,450
Retained earnings		**193,035**	165,363
TOTAL SHAREHOLDERS' EQUITY		**1,135,188**	1,097,879
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**3,291,433**	3,030,448

The attached notes 1 to 33 form part of these financial statements.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2016

	Capital (SR '000)	*Statutory reserve (SR '000)*	*Investment revaluation reserve (SR '000)*	*Cash flow hedge reserve (SR '000)*	*Retained earnings (SR '000)*	*Total (SR '000)*
Balance at 1 January 2015	900,000	20,466	-	(3,727)	118,258	1,034,997
Profit for the year	-	-	-	-	102,880	102,880
Other comprehensive income	-	-	(688)	6,177	(487)	5,002
Total comprehensive income	-	-	(688)	6,177	102,393	107,882
Dividends (note 17)	-	-	-	-	(45,000)	(45,000)
Transfer to statutory reserve	-	10,288	-	-	(10,288)	-
Balance at 31 December 2015	900,000	30,754	(688)	2,450	165,363	1,097,879
Profit for the year	-	-	-	-	105,747	105,747
Other comprehensive loss	-	-	(324)	(614)	-	(938)
Total comprehensive income	-	-	(324)	(614)	105,747	104,809
Dividends (note 17)	-	-	-	-	(67,500)	(67,500)
Transfer to statutory reserve	-	10,575	-	-	(10,575)	-
Balance at 31 December 2016	**900,000**	**41,329**	**(1,012)**	**1,836**	**193,035**	**1,135,188**

The attached notes 1 to 33 form part of these financial statements.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (continued)

For the year ended 31 December 2016

Analysis of retained earnings	*Saudi and GCC Shareholders (SR' 000)*	*Non-Saudi shareholders (SR' 000)*	*Total (SR' 000)*
Balance at 1 January 2015	115,180	3,078	118,258
Profit for the year	99,565	3,315	102,880
Other comprehensive loss	(471)	(16)	(487)
Total comprehensive income	99,094	3,299	102,393
Transfer to statutory reserve	(43,550)	(1,450)	(45,000)
Dividends	(9,956)	(332)	(10,288)
Balance at 31 December 2015	160,768	4,595	165,363
Profit for the year	102,340	3,407	105,747
Total comprehensive income	102,340	3,407	105,747
Transfer to statutory reserve	(10,234)	(341)	(10,575)
Dividends	(65,325)	(2,175)	(67,500)
Balance as at 31 December 2016	**187,549**	**5,486**	**193,035**

The attached notes 1 to 33 form part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Notes	2016 (SR '000)	2015 (SR '000)
OPERATING ACTIVITIES			
Profit before zakat and income tax		**109,040**	105,861
Non-cash adjustment to reconcile profit before zakat and income tax to net cash flows:			
Depreciation	13	**2,030**	837
Borrowing facility cost and charges		**81,809**	48,719
Employees' terminal benefits, net		**2,080**	422
Provision for credit losses		**9,422**	7,416
Share in net income from joint ventures	12	**(12,797)**	(20,024)
Operating cash flows before working capital changes		**191,584**	143,231
Working capital adjustments:			
Murabaha receivables		**(14,584)**	(72,751)
Ijara receivables		**(243,292)**	(452,809)
Ijara mawsofa fi athemmah receivables		**(10,988)**	5,830
Prepayments, accrued income and others		**388**	(25,065)
Accounts payable and accruals		**(18,814)**	28,499
Cash used in operation		**(95,706)**	(373,065)
Borrowing facility cost and charges paid		**(78,512)**	(45,793)
Zakat and income tax paid	15	**(3,501)**	(2,953)
Net cash used in operating activities		**(177,719)**	(421,811)
INVESTING ACTIVITIES			
Purchase of property and equipment	13	**(4,064)**	(4,186)
Proceeds from investments in joint ventures	12	**63,156**	108,214
Investments in joint ventures	12	**(51,986)**	(34,272)
Net cash from investing activities		**7,106**	69,756
FINANCING ACTIVITIES			
Proceeds from bank borrowings, net		**237,114**	411,979
Dividend paid	17	**(67,500)**	(69,833)
Net cash from financing activities		**169,614**	342,146
DECREASE IN BANK BALANCES AND CASH		**(999)**	(9,909)
Bank balances and cash at beginning of the year		**10,346**	20,255
BANK BALANCES AND CASH AT END OF THE YEAR		**9,347**	10,346
Supplementary cash flow information			
Income from murabaha, ijara and ijara mawsofa fi athemmah received		**239,307**	203,205
Non-cash transactions:			
Change in cash flow hedge reserve		**(614)**	6,177
Change in investment revaluation reserves		**(324)**	(688)

The attached notes 1 to 33 form part of these financial statements.

1 ACTIVITIES

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 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

These financial statements have been prepared by the Company in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) as laid down under Article 71 of the Implementing Regulations of the Finance Companies Control Law which requires the Company to prepare the financial statements based on IFRS.

These financial statements have been presented in Saudi Riyals, as it is the functional currency of the Company and are rounded off to the nearest thousands.

Assets and liabilities in the statement of financial position are presented in the order of liquidity.

3 SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies applied by the Company:

Accounting convention
The financial statements are prepared under the historical cost convention, modified to include the measurement at fair value of available for sale investments and derivative financial instruments.

Use of estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period.

Cash and cash equivalents
For the purpose of the cash flow statement, cash and cash equivalents consist of bank balances and cash in hand.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Revenue recognition

Income on financial assets comprising Murabaha placements, Murabaha and Ijara receivables are recognised on an effective profit basis (“EPR”).

Income on Ijara mawsofa fi athemmah receivables are calculated on an EPR basis and are recognised in the income statement over the life of the underlying transactions.

Processing fee and appraisal fees for services rendered are recognised when the service is provided. Fees received upfront are recognised rateably over the period when the service is being provided. When a commitment is not expected to result in the drawdown, commitment fees are recognised on a straight-line basis over the commitment period.

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, and its share of post-acquisition movements in the JV’s reserves is recognised in its reserves. 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 unless the transaction provides evidence of an impairment of the asset transferred.

Available for sale investment

Investments that are bought with neither the intention of being held to maturity nor for trading purposes, are classified as available for sale securities and are carried at their fair value.

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 decline, other than temporary, in the value of available for sale investments is charged to the statement of profit or loss.

Where partial holdings are sold, the cost of investments sold is accounted for on a weighted average basis.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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

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

The principal or the most advantageous market must be accessible to by the Company. The fair value of an asset or a liability is measured using assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement 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.

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

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 assets
These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the EPR method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EPR. The EPR amortisation is included in finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss.

Following are the major financial assets as of the reporting date:

(a) 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.

(b) Ijara receivables
Ijara finance is an agreement in finance leases where in gross amounts due under originated Ijara (finance) leases includes the total of future lease payments on Ijara finance leases (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 finance lease income and for presentation purposes, is deducted from the gross amounts due under Ijara finance leases.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

(c) 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.

Impairment of financial assets
The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a Company of financial assets is impaired. A financial asset or a Company of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result 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 the Company of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a Company of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default or delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Provision 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.

Derecognition of financial assets
A financial asset (or, where applicable, a part of a financial asset or part of a Company of similar financial assets) 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 (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) 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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liability

Initial recognition and measurement
All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs. The Company's financial liabilities include trade and other payables, bank borrowings, financial guarantee contracts, and derivative financial instruments.

Subsequent measurement
After initial recognition, profit bearing bank borrowings are subsequently measured at amortised cost using the EPR method. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the EPR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EPR. The EPR amortisation is included in finance costs in the statement of profit or loss.

Derecognition of financial liability
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

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

Net special commission income 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 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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.

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.

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 gain or losses on foreign currency transactions are included in the statement of profit or loss during the year.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Zakat and income tax

The Company's Saudi and GCC shareholders are subject to zakat and its non-Saudi shareholders are subject to income tax in accordance with the regulations of the General Authority of Zakat and Income Tax (the "GAZT") as applicable in the Kingdom of Saudi Arabia. An estimate of zakat and income tax arising there from is provided by a charge to the statement of profit or loss.

Deferred zakat and tax liabilities and assets are recognised for all temporary differences at current rates of zakat and taxation. The carrying amount of any deferred zakat and tax asset is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient zakatable and taxable income will be available in the near future to allow all or part of the deferred zakat and tax asset to be utilised. The impact of changes in deferred zakat and tax assets / liabilities are recognised by way of charge or credit to the statement of profit or loss.

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.

4 GENERAL AND ADMINISTRATIVE EXPENSES

	31 December 2016 (SR '000)	*31 December 2015 (SR '000)*
Salaries and employee related cost	**46,640**	42,235
Professional fee	**3,196**	5,508
Board fee and expenses	**2,900**	2,249
Rent	**2,766**	2,699
Information technology expenses	**2,339**	1,602
Depreciation (note 13)	**2,101**	837
Travelling expenses	**850**	875
Communication	**683**	459
Maintenance expenses	**519**	718
Others	**2,633**	2,365
	64,627	59,547

5 SELLING AND MARKETING EXPENSES

	31 December 2016 (SR '000)	*31 December 2015 (SR '000)*
Marketing expenses	**4,000**	3,174
Outsourcing costs	**2,595**	2,324
Insurance	**2,325**	2,948
	8,920	8,446

6 BANK BALANCES AND CASH

	31 December 2016 (SR '000)	*31 December 2015 (SR '000)*
Bank balances	**9,324**	10,323
Cash in hand	**23**	23
	9,347	10,346

Bank balances are with counterparties that have investment grade credit ratings. Investment grade refers to the quality of the counterparty's credit. In order to be considered investment grade, the counterparty must be rated at 'BBB' or higher by Standard and Poor's or Moody's.

7 MURABAHA RECEIVABLES, NET

	31 December 2016 (SR '000)	*31 December 2015 (SR '000)*
Gross Murabaha sale contracts receivables	**501,619**	487,663
Less: Unearned income	**(73,548)**	(74,176)
Murabaha contracts receivables, net	**428,071**	413,487
Less: Provision for Murabaha receivable credit losses	**(7,367)**	(5,813)
Murabaha receivables, net	**420,704**	407,674

The minimum future payments on the gross Murabaha sale contracts receivable as of the reporting dates are summarised below:

	31 December 2016 (SR '000)	*31 December 2015 (SR '000)*
Gross Murabaha sale contracts receivables		
Less than one year	**178,903**	121,630
One to five years	**293,950**	347,245
Over five years	**28,766**	18,788
	501,619	487,663
Less: Unearned income	**(73,548)**	(74,176)
Murabaha contracts receivables, net	**428,071**	413,487

7 MURABAHA RECEIVABLES, NET (continued)

The movement in provision for Murabaha receivable credit losses was as follows:

	31 December 2016 (SR '000)	*31 December 2015 (SR '000)*
Balance at beginning of the year	**5,813**	4,794
Provided during the year	**1,554**	1,019
Balance at end of the year	**7,367**	5,813

8 IJARA RECEIVABLES, NET

	31 December 2016 (SR '000)	*31 December 2015 (SR '000)*
Gross Ijara contracts receivables	**3,282,478**	2,934,040
Less: Unearned income	**(752,993)**	(647,849)
Ijara contracts receivables, net	**2,529,485**	2,286,191
Less: Provision for Ijara receivables credit losses	**(39,705)**	(32,172)
Ijara receivables, net	**2,489,780**	2,254,019

The minimum future payments on the Ijara receivables as of the reporting dates are summarised below:

	31 December 2016 (SR '000)	*31 December 2015 (SR '000)*
Gross Ijara contracts receivables		
Less than one year	**742,826**	635,570
One to five years	**1,836,454**	1,748,527
Over five years	**703,198**	549,943
	3,282,478	2,934,040
Less: unearned income	**(752,993)**	(647,849)
Ijara contracts receivables, net	**2,529,485**	2,286,191

The movement in provision for Ijara receivables credit losses was as follows:

	31 December 2016 (SR '000)	*31 December 2015 (SR '000)*
Balance at beginning of the year	**32,172**	25,693
Provided during the year	**7,533**	6,479
Balance at end of the year	**39,705**	32,172

9 IJARA MAWSOFA FI ATHEMMAH RECEIVABLES, NET

	31 December 2016 (SR '000)	*31 December 2015 (SR '000)*
Gross Ijara mawsofa fi athemmah contracts receivables	**200,681**	185,831
Less: Unearned income	**(79,071)**	(75,209)
Ijara mawsofa fi athemmah contracts receivables, net	**121,610**	110,622
Less: Provisions for Ijara mawsofa fi athemmah receivables credit losses	**(1,885)**	(1,549)
Ijara mawsofa fi athemmah receivables, net	**119,725**	109,073

The minimum future payments on the Ijara mawsofa fi athemmah receivables as of the reporting dates are summarised below:

	31 December 2016 (SR '000)	*31 December 2015 (SR '000)*
Gross Ijara mawsofa fi athemmah contracts receivables		
Less than one year	**21,415**	19,845
One to five years	**68,720**	72,033
Over five years	**110,546**	93,953
	200,681	185,831
Less: unearned income	**(79,071)**	(75,209)
Ijara mawsofa fi athemmah contracts receivables, net	**121,610**	110,622

The movement in provision for Ijara mawsofa fi athemmah receivables credit losses was as follows:

	31 December 2016 (SR '000)	*31 December 2015 (SR '000)*
Balance at beginning of the year	**1,549**	1,630
Provide/(reversal) during the year	**336**	(81)
Balance at end of the year	**1,885**	1,549

10 AVAILABLE FOR SALE INVESTMENT

Available for sale investment represents investment in SAIB Saraya Tower Real Estate Development Fund, a close ended real estate construction development fund managed by Alistithmar Capital.

The movement in available for sale investment during the year was as follows:

	31 December 2016 (SR '000)	*31 December 2015 (SR '000)*
Cost at the beginning and end of the year	**12,000**	12,000
Unrealised loss:		
At beginning of the year	(688)	-
Revaluation loss during the year	(324)	(688)
At end of the year	(1,012)	(688)
Net carrying amount	**10,988**	11,312

11 PREPAYMENTS, ACCRUED INCOME AND OTHERS

	31 December 2016 (SR '000)	*31 December 2015 (SR '000)*
Accrued income	**59,464**	41,430
Receivable from Joint Ventures (see note below)	**28,286**	47,205
Accrued profit on derivatives	**1,882**	1,300
Prepaid rent	**669**	752
Others	**4,084**	4,086
	94,385	94,773

During the year, the Company has exited from certain JV arrangements (see note 12). The Co-venturers have agreed to incur all future costs on the project until the developed villas are handed over to customers and agreed an exit price with the Company.

12 INVESTMENTS IN JOINT VENTURES

(a) Movement in investment in joint ventures during the year is as follows:

Movement for 2016	*Location*	*% of shareholding*	*Opening balance (SR '000)*	*Additions (SR '000)*	*Share in net income (loss)/ gain on sale of investments (SR '000)*	*Withdrawals (SR '000)*	*Closing Balance (SR '000)*
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
e) Albani Development Company	Al Yasim District, Riyadh	50%	3,254	-	(201)	(3,053)	-
f) Saudi Kayan II	AlNawras, AlKhobar	60%	4,110	579	137	(4,826)	-
g) Tharaa Real Estate Investment	AlMarooj, AlKhobar	50%	3,640	8,063	1,977	(5,085)	8,595
h) Abdul Aziz Al Qassim, Al-Aqeeq	AlAqeeq, Riyadh	60%	1,784	600	963	(3,347)	-
i) Al Masharia Al Oula	Al Yasim District, Riyadh	60%	10,443	2,700	982	-	14,125
j) Saudi Kyan III	AlNawras, AlKhobar	60%	4,659	-	750	-	5,409
			111,197	**51,986**	**12,797**	**(63,156)**	**112,824**

12 INVESTMENTS IN JOINT VENTURES (continued)

Movement for 2015	*Location*	*% of shareholding*	*Opening balance (SR '000)*	*Additions (SR '000)*	*Share in net income (loss)/ gain on sale of investments (SR '000)*	*Withdrawals (SR '000)*	*Closing balance (SR '000)*
a) Dar wa Emar, Olaya	AlOlaya, AlKhobar	50%	27,175	6,530	-	(17,637)	16,068
b) Dar wa Emar, Rahba	AlRahba, AlKhobar	90%	28,527	-	300	(463)	28,364
c) Teraz Arabia	Erga, Riyadh	70%	24,432	3,255	3,201	(14,962)	15,926
d) AbdulAziz Al Qassim, Malga III	Malga, Riyadh	40%	15,613	7,336	-	-	22,949
e) Ibrahim Al Fozan	Rabia , Riyadh	60%	12,764	-	3,001	(15,765)	-
f) Albani Development Company	Al Yasim District, Riyadh	50%	11,874	94	1,691	(10,405)	3,254
g) Saudi Kayan II	AlNawras, AlKhobar	60%	8,542	4,200	4,149	(12,781)	4,110
h) Tharaa Real Estate Investment	AlMarooj, AlKhobar	50%	8,487	2,881	2,216	(9,944)	3,640
i) Abdul Aziz Al Qassim, Al-Aqeeq	AlAqeeq, Riyadh	60%	8,122	-	480	(6,818)	1,784
j) Al Masharia Al Oula	Al Yasim District, Riyadh	60%	6,467	3,976	-	-	10,443
k) Saudi Kyan III	AlNawras, AlKhobar	60%	5,437	6,000	4,298	(11,076)	4,659
l) AbdulAziz Al Qassim, Malga II	Malga, Riyadh	50%	5,258	-	500	(5,758)	-
m) Argan	Qurtoba, Riyadh	50%	1,871	-	169	(2,040)	-
n) Saudi Kayan I	AlNawras, AlKhobar	50%	546	-	19	(565)	-
			165,115	34,272	20,024	(108,214)	111,197

The Company does not consolidate the results of the joint ventures as it shares control with the co-venturers and shares 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 Company until maturity and disbursements for commitments in investments for ongoing projects will continue to be booked by the Company.

12 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:

Year ended 31 December 2016	*Company's effective holding*	*Current assets (SR '000)*	*Non-current assets (SR '000)*	*Current liabilities (SR '000)*	*Non-current liabilities (SR '000)*	*Equity (SR '000)*	*Revenue (SR '000)*	*Profit (SR '000)*
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**

12 INVESTMENTS IN JOINT VENTURES (continued)

Year ended 31 December 2015	*Company's effective holding*	*Current assets (SR '000)*	*Non-current assets (SR '000)*	*Current liabilities (SR '000)*	*Non-current liabilities (SR '000)*	*Equity (SR '000)*	*Revenue (SR '000)*	*Profit (SR '000)*
a) Dar wa Emar, Olaya	50%	6,606	76,397	868	50,000	32,135	-	-
b) Dar wa Emar, Rahba	90%	166	38,697	2,207	-	36,656	2,069	334
c) Teraz Arabia	70%	2,152	39,885	2,485	-	39,552	-	-
d) AbdulAziz Al Qassim, Malga III	40%	4,447	52,926	-	-	57,373	-	-
e) Albani Development Company	50%	118	6,466	75	-	6,509	15,760	3,380
f) Saudi Kayan II	60%	1,240	29,172	9,175	-	21,237	-	-
g) Tharaa Real Estate Investment	50%	2,608	69,412	23,075	40,209	8,736	-	-
h) Abdul Aziz Al Qassim, Al-Aqeeq	60%	5,907	7,077	2,760	7,250	2,974	3,000	800
i) Al Masharia Al Oula	60%	1,440	15,964	-	-	17,404	-	-
j) Saudi Kyan III	60%	2,130	21,760	4,830	-	19,060	-	-
		26,814	357,756	45,475	97,459	241,636	20,829	4,514

13 PROPERTY AND EQUIPMENT

The estimated useful lives of the assets for calculation of depreciation are as follows:

Leasehold improvements	Shorter of 10 years or lease period	Office equipment	5 years
Furniture and fixtures	6 years	Information technology equipment	3 to 5 years

	Land (SR'000)	*Leasehold improvements (SR'000)*	*Office equipment (SR'000)*	*Furniture and fixtures (SR'000)*	*Information technology equipment (SR'000)*	*Work in progress (SR'000)*	*31 December 2016 (SR '000)*
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**
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 leasehold improvement of new Riyadh branch and information technology system enhancement.

13 PROPERTY AND EQUIPMENT (continued)

The estimated useful lives of the assets for calculation of depreciation are as follows:

Leasehold improvements	Shorter of 10 years or lease period	Office equipment	5 years
Furniture and fixtures	6 years	Information technology equipment	3 to 5 years

	Land (SR'000)	*Leasehold improvements (SR'000)*	*Office equipment (SR'000)*	*Furniture and fixtures (SR'000)*	*Information technology equipment (SR'000)*	*Work in progress (SR'000)*	*31 December 2015 (SR '000)*
Cost:							
Balance at beginning of the year	18,655	1,917	394	2,058	12,561	2,665	38,250
Additions during the year	-	83	40	18	105	3,940	4,186
Transferred to fixed assets	-	-	41	-	1,000	(1,041)	-
Balance at end of the year	18,655	2,000	475	2,076	13,666	5,564	42,436
Depreciation:							
Balance at beginning of the year	-	978	348	1,624	11,501	-	14,451
Charge for the year	-	182	18	67	570	-	837
Balance at end of the year	-	1,160	366	1,691	12,071	-	15,288
Net book value:							
At 31 December 2015	18,655	840	109	385	1,595	5,564	27,148

Work in progress as at 31 December 2015 represents the amount paid for leasehold improvement of new Riyadh branch and system enhancement

14 ACCOUNTS PAYABLE AND ACCRUALS

	31 December 2016 (SR '000)	*31 December 2015 (SR '000)*
Salaries and employee related expenses	**14,654**	11,384
Accrued profit on borrowing	**10,467**	7,169
Accrued expenses	**8,930**	7,963
Advances received from Murabaha and Ijara customers	**9,035**	16,329
Financing to customers	**590**	19,706
Others	**7,183**	3,824
	50,859	66,375

15 ZAKAT AND INCOME TAX

a) *Charge for the year*

	31 December 2016 (SR '000)	*31 December 2015 (SR '000)*
Current zakat (note (b))	**2,926**	2,794
Current income tax (note (c))	**780**	744
Deferred zakat and income tax (note (d))	**(413)**	(557)
	3,293	2,981

b) *Zakat*

The elements of the zakat base are as follows:

	31 December 2016 (SR '000)	*31 December 2015 (SR '000)*
Shareholders' equity	**900,000**	900,000
Borrowings	**2,091,803**	1,854,689
Opening provisions and adjustments	**46,288**	37,962
Book value of property and equipment	**(16,716)**	(16,716)
Net investment in finance lease	**(3,202,978)**	(2,932,809)
	(181,603)	(156,874)
Adjusted net income for the year	**120,957**	115,490
Zakat base	**120,957**	115,490

15 ZAKAT AND INCOME TAX (continued)

b) Zakat (continued)

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:

	31 December 2016 (SR '000)	*31 December 2015 (SR '000)*
Zakat Base		
Zakat base attributable to 96.8% Saudi and GCC shareholders	**117,059**	111,769
Zakat @ 2.5%	**2,926**	2,794

The movement in zakat provision is as follows:

	31 December 2016 (SR '000)	*31 December 2015 (SR '000)*
As at 1 January	**3,006**	2,544
Charge for the year	**2,926**	2,794
Payment made during the year	**(2,769)**	(2,332)
As at 31 December	**3,163**	3,006

c) Income tax

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

	31 December 2016 (SR '000)	*31 December 2015 (SR '000)*
Adjusted net income	**120,957**	115,490
Adjusted net income attributable to Non-Saudi shareholders 3.22%	**3,898**	3,721
Income tax payable @ 20%	**780**	744

15 ZAKAT AND INCOME TAX (continued)

c) *Income tax (continued)*

The movement in income tax provision is as follows:

	31 December 2016 (SR '000)	*31 December 2015 (SR '000)*
As at 1 January	**792**	669
Charge for the year	**780**	744
Payment made during the year	**(732)**	(621)
As at 31 December	**840**	792

d) *Deferred zakat and income tax*

The net deferred tax liability and deferred tax charge in the statement of profit or loss are attributable to the following items:

	Balance at beginning of the year (SR '000)	*Charge to statement of profit or loss (SR '000)*	*Balance at end of the year (SR '000)*
Movement in 2016			
Provision for credit losses	**(1,212)**	**(287)**	**(1,499)**
Employees' terminal benefits	**(207)**	**(64)**	**(271)**
Tax effect of accelerated depreciation	**(84)**	**(62)**	**(146)**
	(1,503)	**(413)**	**(1,916)**
Movement in 2015			
Provision for credit losses	(984)	(228)	(1,212)
Employees' terminal benefits	(179)	(28)	(207)
Tax effect of accelerated depreciation	217	(301)	(84)
	(946)	(557)	(1,503)

15 ZAKAT AND INCOME TAX (continued)

e) Status of assessments

The Company has submitted the tax/zakat declarations for the years ended 31 December 2007 through 2015 with the General Authority of Zakat and Income Tax (“GAZT”). 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 has been disallowed on 21 April 2014. As a result, the Company has filed an appeal before the Higher Appeal Committee.

During February 2016, the Company has received a letter from GAZT assessing zakat and income tax of SR 44.172 million for the 2011 and 2012 assessment years. In arriving at this figure, GAZT has once again disallowed the deduction of net investments / financing receivables from the zakat base. The Company is contesting this assertion through professional representations.

The Company considers it unlikely that the present position of GAZT will be upheld throughout the appeal process, 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.

The Company has not considered the disallowances of deduction of net investment in finance leases for the years ended 31 December 2013, 2014 and 2015 and in the current year financial statements. There is a potential risk of additional claims by the GAZT, if the same principle were to be applied for the financial years then ended and any subsequent 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.

In November 2016, a letter from GAZT has been received to attend the hearing on 05/04/1438 corresponding to 03/01/2017 on the Appeal filed for 2007-2010 with Higher Appeal Committee against the decision taken by Preliminary Appeal committee. The hearing was later postponed until further notice. The Company is contesting this assertion through professional representations.

Due to the uncertainties involved, the Company is unable to assess accurately the final 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.

16 BANK BORROWINGS

These represent amounts borrowed from local banks. These facilities carry borrowing costs at commercial rates and are secured by the assignment of proceeds from installment receivables. Under the terms of the arrangements, the Company has to adhere to certain financial and non-financial covenants.

	31 December 2016 (SR ‘000)	*31 December 2015 (SR ‘000)*
Current portion of bank borrowing	**800,211**	674,080
Non-current portion of bank borrowing	**1,291,592**	1,180,609
	2,091,803	1,854,689

17 DIVIDENDS

During the year, the shareholders have approved dividends at SR 0.75 per share (2015: 0.5 per share) aggregating SR 67.5 million (2015: SR 45 million).

18 EMPLOYEES' TERMINAL BENEFITS

The following tables summarise the components of end of service benefits recognised in the statement of profit or loss and amounts recognised in the statement of comprehensive income and statement of financial position:

a) Amount recognised in the statement of financial position:

	31 December 2016 (SR '000)	*31 December 2015 (SR '000)*
Present value of defined benefit obligation	**8,834**	6,754

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

	31 December 2016 (SR '000)	*31 December 2015 (SR '000)*
Current service cost	**1,347**	1,281
Special commission cost	**236**	204
Immediate recognition of prior service cost	**-**	96
Benefit expense	**1,583**	1,581

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

	31 December 2016 (SR '000)	*31 December 2015 (SR '000)*
Present value of defined benefit obligation at beginning of the year	**7,839**	5,845
Charge recognised in statement of profit or loss		
Current service cost	**1,347**	1,281
Special commission cost	**236**	204
Immediate recognition of prior service cost	**-**	96
Actuarial loss (gain) on defined benefit plan recognised in the statement of comprehensive income	**-**	487
Benefits paid	**(588)**	(1,159)
Present value of defined benefit obligation at end of the year	**8,834**	6,754

18 EMPLOYEES' TERMINAL BENEFITS (continued)

d) Principal actuarial assumptions:

	31 December 2016	*31 December 2015*
Discount rate	**3.5%**	3.5%
Salary increase rate	**3.5%**	3.5%

19 SHARE CAPITAL

The Company's authorised, issued and paid up share capital is SR 900 million (2015: SR 900 million) divided into 90 million shares with a nominal value of SR 10 each.

Paid in share capital as at 31 December 2016, 31 December 2015 is as follows:

Shareholders	*(SR '000)*	*Percentage (%)*
Saudi and GCC shareholders	**871,000**	**96.78**
Foreign shareholders	**29,000**	**3.22**
Total	**900,000**	**100.00**

20 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.

21 DERIVATIVES

As at 31 December 2016, the Company held Profit Rate Swaps ("PRS") of a notional value of SR 302 million (2015: SR 609 million) in order to hedge its exposure to commission rate risks related to long term financing (note 9). The table below shows the fair values of derivative financial instruments, recorded as assets and liabilities, together with their notional amounts. The notional amounts indicate the volume of transactions outstanding at the year /period end and are neither indicative of market risk nor credit risk.

21 DERIVATIVES (continued)

31 December 2016	**Positive fair value of PRSs SR**	**Negative fair value of PRSs SR**	**Cash flow hedge reserve SR**
Current portion	**125**	**-**	**125**
Non-Current portion	**2,457**	**(746)**	**1,711**
Total	**2,582**	**(746)**	**1,836**

31 December 2015	Positive fair value of PRSs SR	Negative fair value of PRSs SR	Cash flow hedge reserve SR
Current portion	504	(926)	(422)
Non-Current portion	2,899	(27)	2,872
Total	3,403	(953)	2,450

Derivatives often involve at their inception only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the rate underlying a derivative contract may have a significant impact on the statement of expenses or equity component of the Company.

The cash flow hedge reserve represents the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognized in the statement of expenses when the hedged transaction impacts income or loss, or is included as a basis adjustment, consistent with applicable accounting policy. Under the finance agreements, hedges are required to be held until the maturity date of loans.

22 EARNINGS PER SHARE

The basic and diluted earnings per share are calculated as follows:

	2016	*2015*
Profit for the year (SR'000)	**105,747**	102,880
Weighted average number of ordinary shares (in thousands)	**90,000**	90,000
Basic and diluted earnings per share (SR)	**1.17**	1.14

23 RELATED PARTY TRANSACTIONS AND BALANCES

The following receivable and payable balances arose as a result of transactions with related parties. Significant year end transactions and balances arising from transactions with related parties are as follows:

	Amount of transaction	
	31 December 2016 (SR '000)	*31 December 2015 (SR '000)*
Statement of profit or loss		
Borrowing facility cost and charges	**25,124**	10,932
PRS cost paid	**263**	1,220
Profit earned on financing	**4**	32
Rent expense	**1,592**	1,592
Security and other expenses	**147**	150
Arrangement fees	**530**	487
Salaries and benefits – senior managements	**7,874**	7,098
Board fee and expenses	**2,900**	2,249

Senior management represents the chief executive and his direct reports.

		Balances	
	Relationship	*31 December 2016 (SR '000)*	*31 December 2015 (SR '000)*
Bank balances and cash			
Saudi Investment Bank	Shareholder	**3,395**	270
Ijara receivables, net			
Saudi Investment Bank	Shareholder	**-**	225
Other receivables			
Amlak International Real Estate Development	Affiliates	**1**	-
Due from related parties			
Abdulaziz AlQassim	Joint venture	**-**	28
Saudi Kayan	Joint venture	**5,556**	11,076
Dar Wa Emar - Rahba	Joint venture	**-**	4,926
Tiraz Arabia	Joint venture	**-**	14,962
Saudi Kyan 2	Joint venture	**-**	12,781
ICAP	Joint venture	**1,007**	487
Dar Wa Emar - Olaya	Joint venture	**13,694**	-
Tharaa	Joint venture	**8,029**	2,945
Bank borrowings			
Saudi Investment Bank	Shareholder	**672,467**	488,167
Notional amount of Profit Rate Swaps (PRS)			
Saudi Investment Bank	Shareholder	**85,000**	160,000
Financing and advances			
Senior management	Management	**4,361**	3,736
Available for sale investments			
Fund managed by Al Istitmar Capital	Affiliates	**10,988**	11,312

24 OPERATING SEGEMENT INFORMATION

The Company's primary business is conducted in the Kingdom of Saudi Arabia.

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 2016 and 31 December 2015 and its total operating income, expenses and net income for the years then ended are as follows:

	Retail (SR'000)	*Corporate (SR'000)*	*Head office (SR'000)*	*Total (SR'000)*
31 December 2016				
Revenue	**139,688**	**134,159**	**-**	**273,847**
Expenses	**55,847**	**59,469**	**52,784**	**168,100**
Segment profit (loss)	**83,841**	**74,690**	**(52,784)**	**105,747**
Total assets	**1,683,399**	**1,549,686**	**58,348**	**3,291,433**
Total liabilities	**1,110,403**	**1,004,771**	**41,071**	**2,156,245**
31 December 2015				
Revenue	125,566	104,423	-	229,989
Expenses	38,896	31,499	56,714	127,109
Segment profit (loss)	86,670	72,924	(56,714)	102,880
Total assets	1,566,496	1,411,637	52,315	3,030,448
Total liabilities	993,255	894,024	45,290	1,932,569

25 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, 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.

Financial risk factors

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

- Credit risk
- Profit rate risk
- Liquidity risk
- Currency risk
- Legal risk

The Company's activities expose it to a variety of financial risks: credit risk, profit rate risk, liquidity risk, currency risk and legal 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 foreign exchange risk, profit rate risk, credit risk, and investment of excess liquidity.

Credit risk
Credit risk is the risk that one party to a financial instrument 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' credit worthiness, formal credit approvals, assigning credit limits, obtaining collateral such as title on leased 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 credit risks on gross amounts due in relation to the investment in finance leases is mitigated by the retention of title on leased assets, insurance and personal guarantees.

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.

25 RISK MANAGEMENT (continued)

Credit risk **(continued)**

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

	31 December 2016 (SR '000)	*31 December 2015 (SR '000)*
Bank balances	**9,324**	10,323
Murabaha receivables, net	**420,704**	407,674
Ijara receivables, net	**2,489,780**	2,254,019
Ijara mawsofa fi athemmah receivables, net	**119,725**	109,073
Due from joint ventures	**28,286**	47,205
Others	**61,346**	42,730
	3,129,165	2,871,024

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

a) Neither past due nor impaired receivables

	Murabaha receivables (SR '000)	*Ijara receivables (SR '000)*	*Ijara Mawsofa fi athemmah receivables (SR '000)*	*Total (SR '000)*
31 December 2016				
Category -1	**87,765**	**477,816**	**-**	**565,581**
Category -2	**152,565**	**1,006,648**	**29,052**	**1,188,265**
Category -3	**56,995**	**352,621**	**48,356**	**457,971**
Category -4	**867**	**7,015**	**-**	**7,881**
Total	**298,191**	**1,844,100**	**77,407**	**2,219,699**
31 December 2015				
Category -1	197,983	428,701	-	626,684
Category -2	150,879	1,077,595	25,882	1,254,356
Category -3	38,642	504,492	62,812	605,946
Category -4	-	6,355	-	6,355
Total	387,505	2,017,143	88,694	2,493,342

25 RISK MANAGEMENT (continued)

Credit risk **(continued)**

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.

b) Past due but not impaired

	Murabaha receivables (SR '000)	*Ijara receivables (SR '000)*	*Ijara Mawsofa fi athemmah receivables (SR '000)*	*Total (SR '000)*
31 December 2016				
From 1 day to 30 days	**25,456**	**321,213**	**40,286**	**386,955**
From 31 day to 90 days	**97,057**	**238,849**	**2,031**	**337,937**
From 91 day to 180 days	**-**	**85,618**	**-**	**85,618**
Total	**122,513**	**645,680**	**42,317**	**810,510**
31 December 2015				
From 1 day to 30 days	6,926	201,578	16,045	224,549
From 31 day to 90 days	13,243	34,443	4,335	52,021
From 91 day to 180 days	-	854	-	854
Total	20,169	236,876	20,379	277,424

25 RISK MANAGEMENT (continued)

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 investment 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 2016 and 2015. All the exposures are monitored and analysed in major currency concentrations and relevant sensitivities are disclosed in SR thousands.

	2016		*2015*	
	Change in basis points	*Impact on net income SR000*	*Change in basis points*	*Impact on net income SR000*
Saudi Riyal	**+100**	**8,485**	+100	9,265
Saudi Riyal	**-100**	**(8,485)**	-100	(9,265)

a) Profit sensitivity of assets, liabilities and off statement of financial position items

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.

25 RISK MANAGEMENT (continued)

a) Profit sensitivity of assets, liabilities and off statement of financial position items

31 December 2016	*Profit bearing*					
	Within 3 months (SR '000)	*3 to 12 months (SR '000)*	*1 to 5 years (SR '000)*	*Over 5 years (SR '000)*	*Non-profit bearing (SR '000)*	*Total (SR '000)*
Assets						
Bank balances and cash	-	-	-	-	9,347	9,347
Murabaha receivables, net	38,174	108,491	247,887	26,152	-	420,704
Ijara receivables, net	412,108	864,105	1,124,434	89,133	-	2,489,780
Ijara mawsofa fi athemmah receivables, net	45,428	73,066	1,231	-	-	119,725
Available-for-sale investments		-	-	-	10,988	10,988
Positive fair value derivatives	-	-	-	-	2,582	2,582
Prepayments, accrued income and others	-	-	-	-	94,385	94,385
Deferred zakat and tax asset	-	-	-	-	1,916	1,916
Investment in joint ventures	-	-	-	-	112,824	112,824
Property and equipment	-	-	-	-	29,182	29,182
	495,710	1,045,662	1,373,552	115,285	261,224	3,291,433
Shareholders' equity and liabilities						
Accounts payable and accruals	-	-	-	-	50,859	50,859
Negative fair value derivatives	-	-	-	-	746	746
Zakat and taxation	-	-	-	-	4,003	4,003
Bank borrowings	1,468,496	237,779	385,528	-	-	2,091,803
Employees' terminal benefits	-	-	-	-	8,834	8,834
Shareholders' equity	-	-	-	-	1,135,188	1,135,188
Total Shareholders' equity and liabilities	1,468,496	237,779	385,528	-	1,199,630	3,291,433
Gap	**(972,786)**	**807,883**	**988,025**	**115,284**	**(938,406)**	
Cumulative Gap	**(972,786)**	**(164,904)**	**823,121**	**938,406**	**-**	

25 RISK MANAGEMENT (continued)

a) Profit sensitivity of assets, liabilities and off statement of financial position items (continued)

31 December 2015	*Profit bearing* Within 3 months (SR '000)	3 to 12 months (SR '000)	1 to 5 years (SR '000)	Over 5 years (SR '000)	*Non-profit bearing (SR '000)*	*Total (SR '000)*
Assets						
Bank balances and cash	-	-	-	-	10,346	10,346
Murabaha receivables, net	18,946	68,267	303,756	16,705	-	407,674
Ijara receivables, net	119,555	331,728	1,398,960	403,776	-	2,254,019
Ijara mawsofa fi athemmah receivables, net	3,020	8,475	39,812	57,766	-	109,073
Available-for-sale investments	-	-	-	-	11,312	11,312
Positive fair value derivatives	-	-	-	-	3,403	3,403
Prepayments, accrued income and others	-	-	-	-	94,773	94,773
Deferred zakat and tax asset	-	-	-	-	1,503	1,503
Investment in joint ventures	-	-	-	-	111,197	111,197
Property and equipment	-	-	-	-	27,148	27,148
	141,521	408,470	1,742,528	478,247	259,682	3,030,448
Shareholders' equity and liabilities						
Accounts payable and accruals	-	-	-	-	66,375	66,375
Negative fair value derivatives	-	-	-	-	953	953
Zakat and taxation	-	-	-	-	3,798	3,798
Bank borrowings	153,655	520,425	1,180,609	-	-	1,854,689
Employees' terminal benefits	-	-	-	-	6,754	6,754
Shareholders' equity	-	-	-	-	1,097,879	1,097,879
Total Shareholders' equity and liabilities	153,655	520,425	1,180,609	-	1,175,759	3,030,448
Gap	(12,134)	(111,955)	561,919	478,247	(916,077)	
Cumulative Gap	(12,134)	(124,089)	437,830	916,077	-	

25 RISK MANAGEMENT (continued)

Liquidity risk

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

a) Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Company's financial liabilities at 31 December 2016, 31 December 2015 based on contractual undiscounted repayment obligations. The contractual maturities of liabilities have been determined based on the remaining period at the statement of financial position date to the contractual maturity date.

	Fixed maturity					
	Within 3 months (SR '000)	*3 to 12 months (SR '000)*	*1 to 5 years (SR '000)*	*Over 5 years (SR '000)*	*No fixed maturity (SR '000)*	*Total (SR '000)*
31 December 2016						
Accounts payable and accruals	26,936	20,946	2,976	-	-	50,858
Negative fair value derivatives	-	-	746	-	-	746
Zakat and taxation	-	4,003	-	-	-	4,003
Bank borrowings	226,091	574,120	1,291,592	-	-	2,091,803
Employees' terminal benefits	-	-	-	-	8,834	8,834
	253,027	599,069	1,295,314	-	8,834	2,156,244
Derivatives	-	-	30,633	-	-	30,633
Financial guarantee contracts	-	-	-	-	39,408	39,408
Total	**253,027**	**599,069**	**1,325,947**	**-**	**48,242**	**2,226,285**

25 RISK MANAGEMENT (continued)

a) Analysis of financial liabilities by remaining contractual maturities (continued)

	Fixed maturity					
	Within 3 months (SR '000)	*3 to 12 months (SR '000)*	*1 to 5 years (SR '000)*	*Over 5 years (SR '000)*	*No fixed maturity (SR '000)*	*Total (SR '000)*
31 December 2015						
Accounts payable and accruals	44,151	17,276	5,140	761	-	67,328
Negative fair value derivatives	-	-	953	-	-	953
Zakat and taxation	-	3,798	-	-	-	3,798
Bank borrowings	153,655	520,425	1,180,609	-	-	1,854,689
Employees' terminal benefits	-	-	-	-	6,754	6,754
	197,806	541,499	1,186,702	761	6,754	1,933,522
Derivatives	-	-	62,773	-	-	62,773
Financial guarantee contracts	-	-	-	-	39,408	39,408
Total	197,806	541,499	1,249,475	761	46,162	2,035,703

25 RISK MANAGEMENT (continued)

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. See note 25 (a) above for the contractual undiscounted financial liabilities.

	Fixed maturity					
31 December 2016 *Assets*	*Within 3 months (SR '000)*	*3 to 12 months (SR '000)*	*1 to 5 years (SR '000)*	*Over 5 years (SR '000)*	*No fixed maturity (SR '000)*	*Total (SR '000)*
Bank balances and cash	-	-	-	-	9,347	9,347
Murabaha receivables, net	38,174	108,491	247,887	26,152	-	420,704
Ijara receivables, net	125,746	402,216	1,447,418	514,401	-	2,489,780
Ijara mawsofa fi athemmah receivables, net	2,850	9,390	40,954	66,531	-	119,725
Available-for-sale investments	-	-	10,988	-	-	10,988
Positive fair value derivatives	4	122	2,457	-	-	2,582
Prepayments, accrued income and others	46,949	47,436	-	-	-	94,385
Deferred zakat and tax asset	-	-	-	-	1,916	1,916
Investment in joint ventures	28,256	84,568	-	-	-	112,824
Property and equipment	426	1,278	6,764	2,059	18,655	29,182
	242,404	653,500	1,756,469	609,143	29,918	3,291,433
Shareholders' equity and liabilities						
Accounts payable and accruals	26,936	20,947	2,976	-	-	50,859
Negative fair Value derivatives	-	-	746	-	-	746
Zakat and taxation	-	4,003	-	-	-	4,003
Bank borrowings	226,091	574,120	1,291,592	-	-	2,091,803
Employees' terminal benefits	-	-	-	-	8,834	8,834
Shareholders' equity	-	-	-	-	1,135,188	1,135,188
Total Shareholders' equity and liabilities	253,027	599,070	1,295,314	-	1,144,022	3,291,433

25 RISK MANAGEMENT (continued)

Liquidity risk (continued)

	Fixed maturity					
31 December 2015 *Assets*	*Within 3 months (SR '000)*	*3 to 12 months (SR '000)*	*1 to 5 years (SR '000)*	*Over 5 years (SR '000)*	*No fixed maturity (SR '000)*	*Total (SR '000)*
Bank balances and cash	-	-	-	-	10,346	10,346
Murabaha receivables, net	18,946	68,267	303,756	16,705	-	407,674
Ijara receivables, net	119,555	331,728	1,398,960	403,776	-	2,254,019
Ijara mawsofa fi athemmah receivables, net	3,020	8,475	39,812	57,766	-	109,073
Available-for-sale investments	-	-	11,312	-	-	11,312
Positive fair value derivatives	-	-	3,403	-	-	3,403
Prepayments, accrued income and others	46,685	45,386	1,886	816	-	94,773
Deferred zakat and tax asset	-	-	-	-	1,503	1,503
Investment in joint ventures	32,349	48,440	30,408	-	-	111,197
Property and equipment	223	583	5,559	2,128	18,655	27,148
	220,778	502,879	1,795,096	481,191	30,504	3,030,448
Shareholders' equity and liabilities						
Accounts payable and accruals	42,181	15,306	6,814	2,074	-	66,375
Negative fair value derivatives	-	-	953	-	-	953
Zakat and taxation	-	3,798	-	-	-	3,798
Bank borrowings	153,655	520,425	1,180,609	-	-	1,854,689
Employees' terminal benefits	-	-	-	-	6,754	6,754
Shareholders' equity	-	-	-	-	1,097,879	1,097,879
Total Shareholders' equity and liabilities	195,836	539,529	1,188,376	2,074	1,104,633	3,030,448

25 RISK MANAGEMENT (continued)

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.

Legal risk
Title deed of the real estate properties are registered in the name of an affiliated company. The enforceability of any related rights and obligations are subject to interpretation and enforceability in the relevant courts of law.

26 FINANCIAL INSTRUMENTS

Set out below is an overview of financial instruments, other than bank balances and cash, held by the Company:

	31 December 2016		*31 December 2015*	
31 December 2016	*Loan and receivables (SR '000)*	*Available-for-sale (SR '000)*	*Loan and receivables (SR '000)*	*Available-for-sale (SR '000)*
Financial assets:				
Murabaha receivables, net	**420,704**	**-**	407,674	-
Ijara receivables, net	**2,489,780**	**-**	2,254,019	-
Ijara mawsofa fi athemmah receivables, net	**119,725**	**-**	109,073	-
Available for sale investment	**-**	**10,988**	-	11,312
	3,030,209	**10,988**	2,770,766	11,312

	31 December 2016		*31 December 2015*	
31 December 2016	*Financial liabilities at amortised cost (SR '000)*	*Fair value other comprehensive income (SR '000)*	*Financial liabilities at amortised cost (SR '000)*	*Fair value other comprehensive income (SR '000)*
Financial liabilities:				
Bank borrowings	**2,091,803**	**-**	1,854,689	-
Cash flow hedges	**-**	**(1,836)**	-	(2,450)
	2,091,803	**(1,836)**	1,854,689	(2,450)

27 FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

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

Financial instruments comprise financial asset, financial liabilities and derivatives.

Financial assets consist of bank balances and receivables. Financial liabilities consist of term loans and payables. Derivatives relates to profit rate swaps.

Fair value hierarchy

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

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

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

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

2016 (SAR '000)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Murahaba receivable	**-**	**414,482**	**-**	**414,482**
Available for sale investment	**-**	**10,988**	**-**	**10,988**
	-	**425,470**	**-**	**425,470**
Financial liabilities				
Derivatives financial instruments	**-**	**32,469**	**-**	**32,469**

2015 (SAR '000)	Level 1	Level 2	Level 3	Total
Financial assets				
Murahaba receivable	-	401,120	-	401,120
Available for sale investment	-	11,312	-	11,312
	-	412,432	-	412,432
Financial liabilities				
Derivatives financial instruments	-	65,224	-	65,224

27 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

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

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

The Company's management determines the policies and procedures for both recurring fair value measurement, and for non-recurring measurement, such as assets held for distribution in discontinued operation.

The fair values of the financial assets and liabilities are not materially different from their carrying values, except for certain receivables and liabilities. It is not practicable to determine the fair value of such receivables and liabilities with sufficient reliability.

There have been no transfers to and from Level 2 during the year.

28 STANDARDS ISSUED BUT NOT YET EFFECTIVE

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.

IFRS 9 Financial Instruments
In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Company plans to adopt the new standard on the required effective date. During 2016, the Company has performed a high-level impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Company in the future. Overall, the Company expects no significant impact on its balance sheet and equity except for the effect of applying the impairment requirements of IFRS 9.

(a) Classification and measurement
The Company does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value. Quoted equity shares currently held as available-for-sale with gains and losses recorded in OCI will be measured at fair value through profit or loss instead, which will increase volatility in recorded profit or loss. The AFS reserve currently in accumulated OCI will be reclassified to opening retained earnings. Debt securities are expected to be measured at fair value through OCI under IFRS 9 as the Company expects not only to hold the assets to collect contractual cash flows but also to sell a significant amount on a relatively frequent basis.

The equity shares in non-listed companies are intended to be held for the foreseeable future. The Company expects to apply the option to present fair value changes in OCI, and, therefore, believes the application of IFRS 9 would not have a significant impact. If the Company were not to apply that option, the shares would be held at fair value through profit or loss, which would increase the volatility of recorded profit or loss.

28 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, the Company expects that these will continue to be measured at amortised cost under IFRS 9. However, the Company will analyse the contractual cash flow characteristics of those instruments in more detail before concluding whether all those instruments meet the criteria for amortised cost measurement under IFRS 9.

(b) Impairment
IFRS 9 requires the Company to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Company expects to apply the simplified approach and record lifetime expected losses on all trade receivables.

(c) Hedge accounting
The Company believes that all existing hedge relationships that are currently designated in effective hedging relationships will still qualify for hedge accounting under IFRS 9. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, the Company does not expect a significant impact as a result of applying IFRS 9. The Company will assess possible changes related to the accounting for the time value of options, forward points or the currency basis spread in more detail in the future.

IFRS 14 Regulatory Deferral Accounts
IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and OCI. The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Company is an existing IFRS preparer, this standard would not apply.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Company plans to adopt the new standard on the required effective date using the full retrospective method. During 2016, the Company is currently assessing the impact of IFRS 15 and does not expect that the adoption of the standard will have a material impact in the Company's future consolidated financial statements.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests
The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

28 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Company.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company given that the Company has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 27: Equity Method in Separate Financial Statements
The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Company's consolidated financial statements.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. These amendments must be applied prospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Company.

Annual Improvements 2012-2014 Cycle
These improvements are effective for annual periods beginning on or after 1 January 2016. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

IFRS 7 Financial Instruments: Disclosures

(i) Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

28 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements. The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

IAS 19 Employee Benefits
The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

IAS 34 Interim Financial Reporting
The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively. These amendments are not expected to have any impact on the Company.

Amendments to IAS 1 Disclosure Initiative
The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:
• The materiality requirements in IAS 1
• That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
• That entities have flexibility as to the order in which they present the notes to financial statements
• That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Company.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception
The amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial

statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Company.

29 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 Balance Sheet assets, commitments and notional amount of derivatives, if any, at a weighted amount to reflect their relative risk.

	31 December 2016		31 December 2015	
	Total capital ratio %	Tier I capital ratio %	Total capital ratio %	Tier I capital ratio %
Capital adequacy ratio	**48.70%**	**42.61%**	51.64%	45.36%

30 OPERATING LEASES – COMPANY AS LESSEE

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

	31 December 2016 (SR '000)	*31 December 2015 (SR '000)*
Within 1 year	**1,900**	1,900
After 1 year, but not more than 5 years	**-**	1,900
	1,900	3,800

31 COMMITMENTS AND CONTINGENCIES

The Company is committed to investment in joint venture projects amounting to SR 52 million (31 December 2015: SR 195 million). 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 138 million (31 December 2015: SR 460 million). The Company has outstanding guarantee of SR 39.4 million (31 December 2015: SR 39.4 million).

32 COMPARATIVE FIGURES

Certain of the prior year amounts have been re-classified to conform to the current year's presentation.

33 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on 23 Jumad Awal 1438H (corresponding to 20 February 2017).