Amlak International for Real Estate Finance Prospectus

A Saudi closed joint stock company with Commercial Registration No. 1010234356 dated 27/05/1428H (corresponding to 13/06/2007G), by virtue of Minister of Commerce and Industry Resolution No. 132/S dated 25/05/1428H (corresponding to 11/06/2007G), SAMA License No. 2 /PU/201312 dated 21/02/1435H (corresponding to 24/12/2013G) and SAGIA License No. 102030115042 dated 19/12/1427G (corresponding to 09/01/2007G).

Offering of twenty-seven million, one hundred eighty thousand (27,180,000) ordinary shares, representing 30% of the Share Capital of Amlak International for Real Estate Finance through a public offering at a price of SAR (16) per share

Offering Period for Individual: 4 days starting from 11/11/1441H (corresponding to 02/07/2020G) to 14/11/1441H (corresponding to 05/07/2020G)

Amlak International for Real Estate Finance (hereinafter referred to as the "**Company**" or the "**Issuer**") is a Saudi closed joint stock company established under Commercial Registration No. 1010234356 dated 27/05/1428H (corresponding to 13/06/2007G), Minister of Commerce and Industry Resolution No. 132/S dated 25/05/1428H (corresponding to 11/06/2007G), SAMA License No. 2/ PU/201312 dated 21/02/1435H (corresponding to 24/12/2013G) and SAGIA License No. 102030115042 dated 19/12/1427H (corresponding to 09/01/2007G), and its registered address is P.O. Box 28088, Al Mathar Street, Riyadh, 11437, KSA the Company's headquarters were then transfer to their new location located at 3485 ath thumamah road, Al Rabie District Riyadh 13316 - 8450 P.O. Box 28088, Riyadh, 11437, Kingdom of Saudi Arabia.

The Company was established as a Saudi closed joint stock company with a Share Capital of one billion (1,000,000,000) Saudi riyals divided into one hundred million (100,000,000) ordinary cash shares with a fully-paid nominal value of ten (10) Saudi riyals per share. At the Extraordinary General Assembly Meeting held on 02/09/1432H (corresponding to 02/08/2011G), the Shareholders decided to reduce the Share Capital from one billion (1,000,000,000) Saudi riyals to eight hundred seventy-seven million, five hundred thousand (877,500,000) Saudi riyals, as it exceeded the Company's needs. To reduce it, the Company was to purchase and cancel twelve million, two hundred fifty thousand (12,250,000) shares in accordance with the relevant provisions of the Companies Law. At its Meeting held on 09/06/1433H (corresponding to 30/04/2012G), the Extraordinary General Assembly decided to amend its previous decision on the reduction of the Share Capital from one billion (1,000,000,000) Saudi riyals to eight hundred seventy-seven million, five hundred thousand (877,500,000) Saudi riyals. Following this amendment, the Share Capital was to be reduced from one billion (1,000,000,000) Saudi riyals to nine hundred million (900,000,000), as it exceeded the Company's needs. To reduce it, the Company was to purchase and cancel ten million (10,000,000) shares in accordance with the relevant provisions of the Companies Law. At the Extraordinary General Assembly Meeting held on 19/8/1438H (corresponding to 16/05/2017G), the Shareholders decided to increase the Share Capital of the Company from nine hundred million (900,000,000) Saudi riyals to nine hundred three million (903,000,000) Saudi riyals through issuance of three hundred thousand (300,000) new shares at a value of three million (3,000,000) Saudi riyals, registered to some employees under the Employee Share Scheme. At the Extraordinary General Assembly Meeting held on 21/08/1439H (corresponding to 07/05/2018G), the Shareholders also approved the increase of the Company's Share Capital from nine hundred three million (903,000,000) Saudi riyals to nine hundred six million (906,000,000) Saudi riyals through the issuance of three hundred thousand (300,000) new shares at a value of three million (3,000,000) Saudi riyals, registered to some of the employees under the Employee Share Scheme.

The Company's current Share Capital is nine hundred six million (906,000,000) Saudi riyals divided into ninety million, six hundred thousand (90,600,000) shares with a fully-paid nominal value of ten (10) Saudi riyals per share.

The initial public offering of the Company's shares (the "**Offering**") will be for twenty-seven million, one hundred eighty thousand (27,180,000) ordinary shares (collectively, the "**Offer Shares**" and each an "**Offer Share**"). The Offering price will be (16) Saudi riyals per Offer Share (the "**Offer Price**"), with each Offer Share carrying a fully paid nominal value of ten (10) Saudi riyals. The Offer Shares represent thirty percent (30%) of the issued Share Capital of the Company.

The Offering shall be limited to two tranches of investors (the "**Investors**"):

Tranche (A): Participating Parties: This tranche is comprised of a number of institutions and companies, including investment funds, qualified foreign investors and companies, and Gulf investors with legal personality (collectively referred to as the "**Participating Parties**." Please see Section (1) "**Terms and Definitions**" for more information. The number of Offer Shares to be initially allocated to the Institutional Subscribers is twenty-seven million, one hundred eighty thousand (27,180,000) Offer Shares, representing one hundred percent (100%) of the Offer Shares. However, the final allocation will be made after the end of the Individual Subscribers' subscription. In the event that Individual Subscribers (as defined in Tranche B below) subscribe for the Offer Shares allocated thereto, the Bookrunner shall have the right to reduce the number of Offer Shares allocated to Institutional Subscribers to twenty-four million, four hundred sixty-two thousand (24,462,000) shares, representing ninety percent (90%) of the Offer Shares.

Tranche (B): Individual Subscribers: This tranche comprises Saudi natural persons including any divorced or widowed Saudi woman having minor children from a marriage to a non-Saudi individual, who is entitled to subscribe to the Offer Shares for her own benefit, in the names of her minor children, on the condition that she proves that she is divorced or widowed and the mother of her minor children, any non-Saudi natural person who is resident in the Kingdom who has a bank account with one of the Receiving Entities and GCC natural persons (collectively referred to as the "**Individual Subscribers**," and each an "**Individual Subscriber**" and together with the Institutional Subscribers as the "**Subscribers**"). Subscription of a person in the name of his divorcee shall be deemed invalid, and if a transaction of this nature is proved to have occurred, the law shall be enforced against the applicant. If a duplicate subscription is made, the second subscription will be considered void and only the first subscription will be accepted. A maximum of two million, seven hundred eighteen thousand (2,718,000) Offer Shares representing ten percent (10%) of the Offer Shares shall be allocated to Individual Subscribers. If the Individual Subscribers do not subscribe for all the shares allocated to them, the Bookrunner may reduce the number of shares allotted to them in proportion to the number of shares for which they subscribed.

The Offer Shares will be sold by the Selling Shareholders listed on pages [([xix and xx]) of this Prospectus (collectively referred to as the "**Selling Shareholders**") who collectively own 100% of the Company's Shares prior to the Offering. Upon completion of the Offering, the Selling Shareholders will collectively own seventy percent (70%) of the Company's Shares and will consequently retain a controlling interest in the Company. The proceeds from the Offering, after deduction of the Offering expenses (the "**Net Offering Proceeds**"), will be distributed to the Selling Shareholders prorated to the number of the Offer Shares sold in the Offering by each one of them. The Company will not receive any part of the Net Offering Proceeds, as illustrated in Section 8 Use of Proceeds. The Offering is fully underwritten by the Underwriter (for further details, please see Section (13) "**Underwriting**" of this Prospectus). The Major Shareholders, with the shareholdings disclosed herein, will be subject to a restriction period during which they will be prohibited from selling their Shares for a period of six (6) months as of the date trading starts on the Exchange (the "**Lock-up Period**") as indicated on page ([xvi]). The Major Shareholders at the Company, who own 5% or more of its Shares, are those whose names and ownership percentages of the Company's Share Capital are listed on page [xii].

The Offering will commence on 11/11/1441H (corresponding to 02/07/2020G), and will remain open for a period of four days up to and including the closing day on 14/11/1441H (corresponding to 05/07/2020G) ("**Offering Period**"). Subscription to the Offer Shares can be made through any of the branches of the Receiving Entities (the "**Receiving Entities**") listed on page (viii) during the Offering Period for Individual (for further details, please see the Section "**Key Dates and Subscription Procedures**" and Section 16, "**Details on Shares and Subscription Terms & Conditions**"). Institutional Subscribers may subscribe for the Offer Shares through the Bookrunner during the Book Building Process, which will take place prior to the offering of the Shares to Individual Subscribers.

Each Individual Subscriber must apply for a minimum of ten (10) Offer Shares. The minimum number of Offer Shares that can be subscribed for is ten (10) Shares, while the maximum number is one million (1,000,000) Shares. The balance of the Offer Shares, if any, will be allocated as proposed by the Company and the Financial Advisor. In the event that the number of Individual Subscribers exceeds two hundred seventy-one thousand, eight hundred (271,800) Individual Subscribers, the Company will not guarantee the minimum allocation of ten (10) Offer Shares per Individual Subscriber and the allocation will be determined at the discretion of the Company and Financial Advisor. Excess subscription monies, if any, will be refunded to the Individual Subscribers without any charge or withholding by the Receiving Entities. Notification of the final allotment on 21/11/1441H (corresponding to 12/07/2020G) and refund of subscription monies, if any, will be made no later than 23/11/1441H (corresponding to 14/07/2020G) (see Sub-section "**Allocation of Shares and Refund of Excess Subscription Monie**s" in Section 16 "**Details on Shares and Subscription Terms & Conditions**" of this Prospectus).

The Company has one class of ordinary shares. Each Share entitles its holder to one vote, and each shareholder has the right to attend and vote at the General Assembly meeting of the Company (the "**General Assembly**"). No Shareholder benefits from any preferential voting rights. The Offer Shares will entitle holders to receive dividends declared by the Company as of the date of this Prospectus (please see Section 7 "**Dividend Distribution Policy**" of this Prospectus).

Prior to the Offering, there has been no public market for the Shares in the Kingdom or elsewhere. The Company has submitted an application for registration and offer of the Shares to the Capital Market Authority (the "**CMA**"), and an application for listing of the Shares on the Saudi Stock Exchange (the "**Exchange**" or "**Tadawul**"), together with all supporting documents required by the CMA. All relevant regulatory approvals required to conduct the Offering have been granted. It is expected that trading in the Shares will commence on the Exchange after the final allocation of the Offer Shares and satisfaction of necessary conditions and procedures (for further details, please see "**Key Dates and Subscription Procedures**"). Saudi Arabian nationals, non-Saudi Arabian nationals holding valid residency permits in the Kingdom, and companies, banks, and investment funds established in the Kingdom or in countries of the GCC, as well as GCC nationals, will be permitted to trade in the Shares after trading starts on the Exchange. Moreover, Qualified Foreign Investors (the "**Qualified Foreign Investors**") will be permitted to trade in the Shares in accordance with the QFI Rules. Furthermore, non-Saudi nationals who are not residents in the Kingdom and institutions incorporated outside the Kingdom will be permitted to acquire an economic interest in the Shares by entering into a swap agreement with a person authorized by CMA to acquire, hold and trade shares on the Exchange on behalf of a Foreign Investor (the "**Authorized Person**"). Under such swap agreements, the Authorized Person will be the registered legal owner of such Shares.

The Company has submitted the application for registration and offer of the Shares to the CMA and an application for listing of the Shares on the Exchange and all requirements have been met.

Investment in Offer Shares involves certain risks and uncertainties. For a discussion of certain factors to be carefully considered before determining whether to subscribe for the Offer Shares, the "**Important Notice**" section on page (i) and Section (2) "**Risk Factors**" of this Prospectus should be carefully considered prior to making a decision to invest in the Offer Shares.

Financial Advisor, Bookrunner, Underwriter and Lead Manager

الأهلي كابيتال
NCB Capital

This Prospectus is dated 28/04/1441H (corresponding to 25/12/2019G).

Important Notice

This Prospectus contains detailed information relating to the Company and the Shares. When submitting an application for the Offer Shares, investors will be treated as applying solely on the basis of the information contained in this Prospectus, copies of which are available by visiting the websites of the Company (www.amlakint.com), the CMA (www.cma.org.sa) or the Financial Advisor and the Lead Manager (www.alahlicapital.com).

With respect to the Offering, NCB Capital Company ("**NCB Capital**") has been appointed by the Company as the Financial Advisor (the "**Financial Advisor**"), Bookrunner, Lead Manager (the "**Lead Manager**") and Underwriter (the "**Underwriter**"). (Please see Section (13) "**Underwriting**" of this Prospectus).

This Prospectus includes information that has been presented in accordance with the Rules on the Offer of Securities and Continuing Obligations issued by the CMA. The Directors, whose names appear on page (iv), collectively and individually accept full responsibility for the accuracy of the information contained in this Prospectus and confirm, having made all reasonable enquiries that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

While the Company has made all reasonable enquiries as to the accuracy of the information contained in this Prospectus as of the date hereof, a substantial portion of the information in this Prospectus relevant to the markets and industry in which the Company operates is derived from external sources, Company Management estimates and publicly available information, data and analysis from prospectuses issued by data, information and news providers. While neither the Company nor any of its Advisors have any reason to believe that any of the market and industry information is materially inaccurate, neither the Company nor any of the Advisors has independently verified such information, and no representation or assurance is made with respect to the accuracy or completeness of any of this information.

The information contained in this Prospectus as of the date hereof is subject to change. In particular, the actual financial position of the Company and the value of the Offer Shares may be adversely affected by future developments, such as inflation, interest rates, taxation or other economic, political and any other factors, over which the Company has no control (for further details, please see Section (2) ("**Risk Factors**"). Neither the delivery of this Prospectus nor any oral or written information in relation to the Offer Shares is intended to be or should be construed as or relied upon in any way, as a promise, affirmation or representation as to future earnings, results or events.

This Prospectus is not to be regarded as a recommendation on the part of the Company, the Directors, the Selling Shareholders, or the Advisors to participate in the Offering. Moreover, the information provided in this Prospectus is of a general nature and has been prepared without taking into account individual investment objectives, the financial situation or particular investment needs of the persons who intend to invest in the Offer Shares. Prior to making an investment decision, each recipient of this Prospectus is responsible for obtaining independent professional advice from a CMA licensed financial advisor in relation to the Offering to assess the appropriateness of the financial information provided herein with regard to the recipient's individual objectives, financial situation and investment needs, and must rely on its own examination of the Company and the appropriateness of both the investment opportunity and the information herein with regard to the recipient's individual objectives, financial situation and needs, including the merits and risks involved in investing in the Offer Shares. An investment in the Offer Shares may be appropriate for some investors but not others, and prospective investors should not rely on another party's decision whether to invest as a basis for their own examination of the investment opportunity and such investor's individual circumstances.

The Offering is directed at, and may be accepted only by: (A) Institutional Subscribers, comprising a number of institutions and companies, including investment funds, qualified foreign investors and companies, and Gulf investors with legal personality (for further details, please see Section (1) "**Terms and Definitions**"); and (B) Individual Subscribers. This tranche comprises Saudi natural persons including any divorced or widowed Saudi woman having minor children from a marriage to a non-Saudi individual, who is entitled to subscribe to the Offer Shares for her own benefit, in the names of her minor children, on the condition that she proves that she is divorced or widowed and the mother of her minor children, any non-Saudi natural person who is resident in the Kingdom who has a bank account with one of the Receiving Entities and GCC natural persons. Subscription of a person in the name of his divorcee shall be deemed invalid, and if a transaction of this nature is proved to have occurred, the law shall be enforced against the applicant. If a duplicate subscription is made, the second subscription will be considered void and only the first subscription will be accepted.

The distribution of this Prospectus and the sale of the Offer Shares in any country other than the Kingdom are expressly prohibited. The Company and its Financial Advisor ask all recipients of this Prospectus to inform themselves of all legal and regulatory restrictions relevant to this Offering and the sale of the Shares and to observe all such restrictions.

Market and Industry Information

The information provided herein on the real estate financing industry in which the Company operates is provided by 4SIGHT - Arabian Market Vision Co. Ltd. (the "**Market Consultant**").

Arabian Market Vision Co. Ltd. is a company specialized in market statistics and information that operates in the Middle East and has partnerships in the consumer goods, banking and financial services, telecommunications, real estate, retail, government and other sectors. The Company believes that the information and data obtained or derived from the market study report prepared by the Market Consultant is reliable. However, such information and data has not been independently verified by the Company, the Directors, the Advisors or the Selling Shareholders, and thus none of them bears any liability for the accuracy or completeness of the said information.

The Market Consultant does not, nor do any of its subsidiaries, shareholders, directors, or their relatives, own any shares or any interest of any kind in the Company. As of the date of this Prospectus, the Market Consultant has given and not withdrawn its written consent for the publication of market information supplied by it to the Company in the manner and format set out in this Prospectus. The Company believes that the information and data from third-party sources contained in this Prospectus, including those provided by the Market Consultant, are reliable. However, such information and data have not been independently verified by the Company, the Directors, the Advisors or the Selling Shareholders. Furthermore, industry and market data is subject to change and cannot be verified with certainty. Accordingly, none of these parties bears any liability for the accuracy or completeness of such information or data.

Financial Information

The Company presents its financial statements in Saudi riyals. The Company's audited financial statements for the financial year ended 31 December 2016G, and the accompanying notes thereto included elsewhere in this Prospectus, have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), as stipulated in Article 71 of the Implementing Regulations of the Law on Supervision of Finance Companies. They were audited by the Company's Auditor Ernst & Young & Co (Public Accountants).

The Company's audited financial statements for the financial years ended 31 December 2017G and 2018G and the six-month period ended 30 June 2019G, and the accompanying notes thereto included elsewhere in this Prospectus, have been prepared in accordance with the International Financial Reporting Standards as amended by SAMA. They were audited by the Company's Auditor KPMG Al Fozan & Partners (Public Accountants).

Forecasts and Forward-Looking Statements

The forecasts set forth in this Prospectus have been prepared on the basis of assumptions based on the Company's information according to its market experience, as well as on publicly available market information. Future operating conditions may differ from the assumptions used, and consequently no affirmation or warranty is made with respect to the accuracy or completeness of any of these forecasts. The Company stresses that every professional due care has been taken in preparing the statements contained in this Prospectus. Certain statements in this Prospectus constitute "forward-looking statements". Such statements can generally be identified by their use of forward-looking words such as "plans", "estimates", "believes", "expects", "may", "will", "should", "expected", "would be", "believed" or the negative thereof or other variations of such terms or comparable terminology. These forward-looking statements reflect the current views of the Company and its Management with respect to future events but are not a guarantee of future performance. Many factors could cause the actual results, performance, or achievements of the Company to be significantly different from any future results, performance, or achievements that may be expressed or implied by such forward-looking statements. Some of the risks and factors that could have such an effect are described in more detail in other sections of this Prospectus (please see Section (2) "Risk Factors" of this Prospectus). Should any one or more of these risks or uncertainties materialize or any underlying assumptions prove to be inaccurate or incorrect, the Company's actual results may vary materially from those described, expected, estimated or planned in this Prospectus.

Subject to the requirements of the Rules on the Offer of Securities and Continuing Obligations, the Company must submit a supplementary prospectus if, at any time after this Prospectus has been approved by the CMA and before its Shares are registered with the Saudi Stock Exchange, the Company becomes aware that: (a) there has been a significant change in any material information contained in this Prospectus or any document required by the Rules on the Offer of Securities and Continuing Obligations; or (b) the occurrence of additional significant matters, which would have been required to be included in this Prospectus. Except in the aforementioned circumstances, the Company does not intend to update or otherwise revise any industry or market information in this Prospectus, whether as a result of new information, future events or otherwise. As a result of the aforementioned and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Prospectus might not occur in the way the Company expects, or at all. Subscribers should consider all forward-looking statements in light of these explanations and should not place undue reliance on forward-looking statements.

Certain Terms

Certain figures and percentages included in this Prospectus have been subject to rounding adjustments. Accordingly, figures shown in the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

Corporate Directory

Board of Directors:

Table (1): Board of Directors

Name	Title	Representative of	Nationality	Status	Direct Ownership (%)	Indirect Ownership (%)	Date of Appointment to the Board*
Abdullah Ibrahim Sulaiman Al-Howaish	Chairman	N/A	Saudi	Non-executive / non-independent	2.28%	N/A	04/06/2018G
Mansour bin Abdul Aziz Al-Bosaily	Vice Chairman	N/A	Saudi	Non-executive / independent	N/A	N/A	04/06/2018G
Faisal Abdullah Abdulaziz Al Omran	Director	The Saudi Investment Bank	Saudi	Non-executive / non-independent	N/A	N/A	04/06/2018G
Khalid Abdulaziz Abdulrahman Al Rayes	Director	Aseer	Saudi	Non-executive / non-independent	N/A	N/A	04/06/2018G
Amr Mohamed Abdullah Kamel	Director	N/A	Saudi	Non-executive / independent	N/A	N/A	04/06/2018G
Majed Abdulghani Abdul Hadi Fakeeh	Director	The Saudi Investment Bank	Saudi	Non-executive / non-independent	N/A	N/A	04/06/2018G
Sultan Fawaz Abdulaziz Al Hokair	Director	Almakarim International for Real Estate Development Al Bawarej International Development & Real Estate Investment Company	Saudi	Non-executive / non-independent	N/A	N/A	04/06/2018G
Thamer Abdulkader Abdullah Jan	Director	N/A	Saudi	Non-executive / independent	N/A	N/A	21/11/2018G
Adel Hussein Ali Ahmed	Director	Amlak Finance Dubai	Emirati	Non-executive / non-independent	N/A	N/A	04/06/2018G

*Dates listed in this table are the dates of appointment to the current positions on the Board of Directors. The respective biographies of the Directors describe the dates of their appointment, whether to the Board of Directors or any other previous position. (For more information, please see Section (5.2) "**The Company's Organizational Structure**" of this Prospectus).

Company's Address and Representatives

Company's Address

Amlak International for Real Estate Finance Company
3485 ath thumamah road
Al Rabie District Riyadh 13316 - 8450
P.O. Box 28088, Riyadh, 11437
Kingdom of Saudi Arabia
Tel: +966 (11) 299 8700
Fax: +966 (11) 463 5300
Website: www.amlakint.com
E-mail: info@amlakint.com

Company's Representatives

Abdullah Ibrahim Sulaiman Al-Howaish
Chairman
Amlak International for Real Estate Finance Company
3485 ath thumamah road
Al Rabie District Riyadh 13316 - 8450
P.O. Box 28088, Riyadh, 11437
Kingdom of Saudi Arabia
Tel: +966 (11) 299 8665
Fax: +966 (11) 463 5300
Website: www.amlakint.com
E-mail: chairman@amlakint.com

Abdullah Turki Saad Al Sudairy
Chief Executive Officer
Amlak International for Real Estate Finance Company
3485 ath thumamah road
Al Rabie District Riyadh 13316 - 8450
P.O. Box 28088, Riyadh, 11437
Kingdom of Saudi Arabia
Tel: +966 (11) 299 8663
Fax: +966 (11) 463 5300
Website: www.amlakint.com
E-mail: ceo@amlakint.com

Secretary of the Board of Directors

Omar Sulaiman Abanomia
Amlak International for Real Estate Finance Company
3485 ath thumamah road
Al Rabie District Riyadh 13316 - 8450
P.O. Box 28088, Riyadh, 11437
Kingdom of Saudi Arabia
Tel: +966 (11) 299 8704
Fax: +966 (11) 463 5300
Website: www.amlakint.com
E-mail: ir@amlakint.com

The Exchange

Saudi Stock Exchange (Tadawul)
Tawuniya Towers
King Fahad Road – Olaya 6897
P.O. Box 60612 Riyadh 12211-3388
Kingdom of Saudi Arabia
Tel: +966 (11) 218 9999
Fax: +966 (11) 218 1220
Website: www.tadawul.com.sa
E-mail: webinfo@tadawul.com.sa

Share Registrar

Securities Depository Center Company (Edaa)
Abraaj Attawuneiya
King Fahd Road - Al Olaya 6897
Unit No. 11, Riyadh 12211 - 3388
Kingdom of Saudi Arabia
Tel: +966 92 002 6000
Website: www.edaa.com.sa
E-mail: cc@edaa.com.sa

Advisors

Financial Advisor, Bookrunner, Underwriter and Lead Manager

NCB Capital Company (NCB Capital)
King Saud Road, NCB Regional Building
P.O. Box 22216, Riyadh 11495
Kingdom of Saudi Arabia
Tel: +966 (11) 874 7106
Fax: +966 (11) 406 0052
Website: www.alahlicapital.com
E-mail: ncbc.cm@alahlicapital.com

Offering Legal Advisor

The Law Office of Looaye M. Al-Akkas
Kingdom Tower, 49th Floor, 2239 Oroubah Road, Olaya, Unit No. 9
P.O. Box 12214. Riyadh, 9
597 Kingdom of Saudi Arabia
Tel: +966 (11) 250 0800
Fax: +966 (11) 211 0387
Website: www.velaw.com
E-mail: lalakkas@velaw.com

Financial Due Diligence Advisor

PricewaterhouseCoopers
King Fahd Road
P.O. Box 8282, Riyadh, 11482
Kingdom of Saudi Arabia
Tel: +966 (11) 211 0400
Fax: +966 (11) 465 1663
Website: www.pwc.com
E-mail: omar.alsagga@pwc.com

Market Consultant

4SIGHT - Arabian Market Vision Co. Ltd.
Al Sercon Buildings No. 10, 1st Floor
Musa Ibn Nusair St, Al Olaya
P.O. Box 53052 Riyadh 11583
Kingdom of Saudi Arabia
Tel: +966 (11) 450 7622 Ext: 121
Fax: +966 (11) 408 2262
Website : www.4sight-global.com
E-mail: nisar@4sight-global.com

Auditor for the financial years ended 31 December 2017G and 2018G and the six-month period ended 30 June 2019G
KPMG Al Fozan & Partners KPMG Tower Salaheddin Al-Ayyubi Road P.O. Box 92876, Riyadh 11663 Kingdom of Saudi Arabia Tel: + 966 (11) 874 8500 Fax: + 966 (11) 874 8600 Website: www.kpmg.com.sa E-mail: marketingsa@kpmg.com
Auditor for the financial year ended 31 December 2016G
Ernst & Young & Co. (Certified Public Accountants) Al Faisaliah Tower P.O. Box 2732 Riyadh 11461 Kingdom of Saudi Arabia Tel: +966 (11) 2734740 Fax: +966 (11) 2734730 E-mail: riyadh@sa.ey.com Website: www.ey.com/mena

Note: As of the date of this Prospectus, all the above-mentioned Advisors and Auditors have given and have not withdrawn their written consent to the publication of and reference to their names, addresses, logos and the statements attributed to each in the context in which they appear in this Prospectus, and do not themselves, their employees (from the engagement team serving the Company), or any of their relatives have any shareholding or interest of any kind in the Company or any of its Subsidiaries as of the date of this Prospectus which would impair their independence.

Receiving Entities

The Saudi Investment Bank King Saud Road P.O. Box 3533 Riyadh 11481 Kingdom of Saudi Arabia Tel: +966 (11) 478 6000 Fax: +966 (11) 477 6781 Website: www.saib.com.sa E-mail: ir@saib.com.sa	
NCB King Abdul Aziz Road P.O. Box 3555 Jeddah 21481 Kingdom of Saudi Arabia Tel: + 966 (12) 649 3333 Fax: + 966 (12) 643 7426 Website: www.Alahli.com.sa E-mail: contactus@alahli.com	
Al Rajhi Bank Olaya Road P.O. Box 28, Riyadh 11411 Kingdom of Saudi Arabia Tel: + 966 (11) 211 6000 Fax: + 966 (11) 460 0705 Website: www.alrajhibank.com.sa E-mail: contactcentre1@alrajhibank.com.sa	
Aljazira Capital King Fahd Road P.O Box: 20438,Riyadh 11455 Kingdom of Saudi Arabia Tel: +966 (11) 2256000 Fax: +966 (11) 2256068 Website: www.aljaziracapital.com.sa E-mail: contactus@aljaziracapital.com.sa	

Main Banks of the Company

The Saudi Investment Bank
King Saud Road
P.O. Box 3533 Riyadh 11481
Kingdom of Saudi Arabia
Tel: +966 (11) 478 6000
Fax: +966 (11) 477 6781
Website: www.saib.com.sa
E-mail: ir@saib.com.sa

NCB
King Abdul Aziz Road
P.O. Box 3555 Jeddah 21481
Kingdom of Saudi Arabia
Tel: +966 (12) 649 3333
Fax: +966 (12) 643 7426
Website: www.Alahli.com.sa
E-mail: contactus@alahli.com

Al Rajhi Bank
Olaya Road
P.O. Box 28, Riyadh 11411
Kingdom of Saudi Arabia
Tel: +966 (11) 211 6000
Fax: +966 (11) 460 0705
Website: www.alrajhibank.com.sa
E-mail: contactcentre1@alrajhibank.com.sa

Samba Financial Group
King Abdul Aziz Road
P.O. Box 833, Riyadh 11421
Kingdom of Saudi Arabia
Tel: + 966 (11) 4774770
Fax: + 966 (11) 4799402
Website: www.samba.com
E-mail: CustomerCare@samba.com

Saudi British Bank
Prince Abdulaziz Bin Mossaid Bin Jalawi Street
P.O. Box 9084, Riyadh 11413
Kingdom of Saudi Arabia
Tel: +966 (11) 4050677
Fax: + 966 (11) 4050660
Website: www.sabb.com
E-mail: info@sabb.com.sa

Bank Aljazira
King Abdul Aziz Road
P.O. Box 6277 Jeddah 21442
Kingdom of Saudi Arabia
Tel: +966 (12) 6098888
Fax: +966 (12) 6098881
Website: www.baj.com.sa
E-mail: info@baj.com.sa

Alawwal Bank
Riyadh, Al Dhabab Street
P.O. Box 1467, Riyadh 11431
Kingdom of Saudi Arabia
Tel: +966 (11) 4010288
Fax: +966 (11) 4031104
Website: www.alawwalbank.com
E-mail: ca-tradeadvisory@shb.com.sa

Gulf International Bank
Granada Business & Residential Park
Eastern Ring Road
P.O. Box 93413 Riyadh 11673
Kingdom of Saudi Arabia
Tel: +966 (11) 5103333
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Bank Albilad
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Offering Summary

This Offering Summary is intended to provide a brief overview of the information contained in this Prospectus. As such, it does not contain all of the information that may be important to prospective investors. Accordingly, this summary must be read as an introduction to this Prospectus, and prospective investors should read this entire Prospectus in full. Any decision to invest in the Offer Shares by prospective investors should be based on a consideration of this Prospectus as a whole.

In particular, it is important to carefully consider the "**Important Notice**" on page (i) and Section (2) "**Risk Factors**" prior to making any investment decision on the Offer Shares.

The Company	Amlak International for Real Estate Finance is a Saudi closed joint stock company established under Commercial Registration No. 1010234356 dated 27/05/1428H (corresponding to 13/06/2007G), Minister of Commerce and Industry Resolution No. 132/S dated 25/5/1428H (corresponding to 11/06/2007G), SAMA License No. 2/ PU/201312 dated 21/02/1435H (corresponding to 24/12/2013G) and SAGIA License No. 102030115042 dated 19/12/1427H (corresponding to 09/01/2007G). The current Commercial Registration of the Company expires on 27/05/1443H (corresponding 31/12/2021G). The Company's registered address is PO Box 28088, Al Madhar Street, Riyadh, 11437, KSA. The Company was established as a Saudi closed joint stock company with a Share Capital of one billion (1,000,000,000) Saudi riyals divided into one hundred million (100,000,000) ordinary cash shares with a fully-paid nominal value of ten (10) Saudi riyals per share. At the Extraordinary General Assembly Meeting held on 02/09/1432H (corresponding to 02/08/2011G), the Shareholders decided to reduce the Share Capital from one billion (1,000,000,000) Saudi riyals to eight hundred seventy-seven million, five hundred thousand (877,500,000) Saudi riyals, as it exceeded the Company's needs. To reduce it, the Company was to purchase and cancel twelve million, two hundred fifty thousand (12,250,000) shares in accordance with the relevant provisions of the Companies Law. At its Meeting held on 09/06/1433H (corresponding to 30/04/2012G), the Extraordinary General Assembly decided to amend its previous decision on the reduction of the Share Capital from one billion (1,000,000,000) Saudi riyals to eight hundred seventy-seven million, five hundred thousand (877,500,000) Saudi riyals. Following this amendment, the Share Capital was to be reduced from one billion (1,000,000,000) Saudi riyals to nine hundred million (900,000,000), as it exceeded the Company's needs. To reduce it, the Company was to purchase and cancel ten million (10,000,000) shares in accordance with the relevant provisions of the Companies Law. At the Extraordinary General Assembly Meeting held on19/08/1438H (corresponding to 16/05/2017G), the Shareholders decided to increase the Share Capital of the Company from nine hundred million (900,000,000) Saudi riyals to nine hundred three million (903,000,000) Saudi riyals through issuance of three hundred thousand (300,000) new shares at a value of three million (3,000,000) Saudi riyals, registered for some employees under the Employee Share Scheme. At the Extraordinary General Assembly Meeting held on 21/08/1439H (corresponding to 07/05/2018G), the Shareholders also approved the increase in the Company's Share Capital from nine hundred three million (903,000,000) Saudi riyals to nine hundred six million (906,000,000) Saudi riyals through issuance of three hundred thousand (300,000) new shares at a value of three million (3,000,000) Saudi riyals, registered for some employees under the Employee Share Scheme. The Company's current Share Capital is nine hundred six million (906,000,000) Saudi riyals divided into ninety million, six hundred thousand (90,600,000) shares with a fully-paid nominal value of ten (10) Saudi riyals per share.
Company's Activity	The Company's main activity is to engage in real estate finance under Commercial Registration No. 1010234356 dated 27/05/1428H and SAMA License No. 2/PU/201312 dated 21/02/1435H (corresponding to 24/12/2013G).

Major Shareholders

The following table sets out the names and shareholding of the Company's Major Shareholders before and after the Offering:

Shareholders	Pre-Offering		Post-Offering	
	Number of Shares	Direct Ownership (%)	Number of Shares	Direct Ownership (%)
The Saudi Investment Bank	29,000,000	32.01%	20,300,000	22.41%
Amlak Finance	23,750,000	26.21%	16,625,000	18.35%
Al Tawfeek Development House	13,000,000	14.35%	9,100,000	10.04%
Almakarim International for Real Estate Development	5,100,000	5.63%	3,570,000	3.94%
Aseer Company for Trading and Tourism	5,000,000	5.52%	3,500,000	3.86%
Total	**75,850,000**	**83.72%**	**53,095,000**	**58.60%**

Selling Shareholders

The following table sets out the details of the Company's Selling Shareholders, the number of their shares and their ownership interest before and after the Offering:

Shareholders	Pre-Offering		Post-Offering	
	Number of Shares	Direct Ownership (%)	Number of Shares	Direct Ownership (%)
The Saudi Investment Bank	29,000,000	32.01%	20,300,000	22.41%
Amlak Finance	23,750,000	26.21%	16,625,000	18.35%
Al Tawfeek Development House	13,000,000	14.35%	9,100,000	10.04%
Almakarim International for Real Estate Development	5,100,000	5.63%	3,570,000	3.94%
Aseer Company for Trading and Tourism	5,000,000	5.52%	3,500,000	3.86%
Al Bawarej International Development & Real Estate Investment Company	2,550,000	2.81%	1,785,000	1.97%
Sami Saeed Ali Al-Angari	2,550,000	2.81%	1,785,000	1.97%
Al-Nawasi Al-Arabia for Development and Advancement	2,550,000	2.81%	1,785,000	1.97%
Abdullah Ibrahim Sulaiman Al-Howaish	2,062,500	2.28%	1,443,750	1.59%
Zarabi Al-Arabia for Development and Advancement	1,250,000	1.38%	875,000	0.97%
Mohammed Abdulrahman Sulaiman Al-Farraj	750,000	0.83%	525,000	0.58%
Abdullah Khalid Abdullah Al-Melhem	750,000	0.83%	525,000	0.58%
Sulaiman Mohammed Sulaiman Al-Romaih	750,000	0.83%	525,000	0.58%
Abdulaziz Abdulrahman Abdullah Al-Modaimegh	750,000	0.83%	525,000	0.58%
Abdullah Turki Saad Al Sudairy	300,000	0.33%	210,000	0.23%
Tawfiq Yahya Hassan Maafa	97,500	0.11%	68,250	0.08%
Saud Abdullah Abdulrahman Al Shathri	85,000	0.09%	59,500	0.07%
Nizar Saleh Ibrahim Al Suwaiyan	52,500	0.06%	36,750	0.04%
Osama Mirza Saleh Al-Khanzeri	50,000	0.06%	35,000	0.04%
Mohammed Habeeb Mohammed Al Salman	42,500	0.05%	29,750	0.03%

Selling Shareholders (continued)	

Shareholders	Pre-Offering		Post-Offering	
	Number of Shares	Direct Ownership (%)	Number of Shares	Direct Ownership (%)
Abdullah Saad Ali Al Shathri	40,000	0.04%	28,000	0.03%
Ali Mohammed Zafir Alshashaa	40,000	0.04%	28,000	0.03%
Turki Otaibi Moaid Al Zahrani	27,500	0.03%	19,250	0.02%
Rashed Khalid Rashed Al Madyan	27,500	0.03%	19,250	0.02%
Khaled Ibrahim Mohamed Al-Aqeel	15,000	0.02%	10,500	0.01%
Omar Sulaiman Abdulaziz Abanomia	10,000	0.01%	7,000	0.01%
Total	**90,600,000**	**100.00%**	**63,420,000**	**70.00%**

Company's Share Capital before and after the Offering	The Company's Share Capital prior to the Offering is nine hundred six million (906,000,000) Saudi riyals and will remain the same after the Offering.
Total number of the Company's Shares before and after the Offering	The Company's Shares prior to the Offering is ninety million, six hundred thousand (90,600,000) shares and will remain the same after the Offering.
Nominal Value per Share	Ten Saudi riyals (SAR 10) per share.
Offering	Initial public offering of twenty-seven million, one hundred eighty thousand (27,180,000) ordinary shares with a fully-paid nominal value of ten (10) Saudi riyals per share, at an Offer Price of SAR 16 per share. The Offer Shares, in total, represent 30% of the Company's Share Capital.
Number of Offer Shares	Twenty-seven million, one hundred eighty thousand (27,180,000) fully-paid ordinary shares.
Percentage of Offer Shares of the Company's Share Capital	The Offer Shares represent 30% of the Company's Share Capital.
Offer Price	SAR 16 per Share
Total Value of Offering	SAR 434,880,000
Use of Proceeds	The Net Proceeds of SAR (419,880,000) (after deducting the Offering expenses estimated at fifteen million (15,000,000) Saudi riyals will be paid to the Selling Shareholders on a pro-rata basis according to the number of Offer Shares owned by each Selling Shareholder. The Company will not receive any part of the Offering Proceeds (for further details on the use of Offering proceeds, please see Section 8 "**Use of Proceeds**").
Number of Offer Shares to be Underwritten	Twenty-seven million, one hundred eighty thousand (27,180,000) shares.
Total Offering Amount to be Underwritten	SAR 434,880,000

Categories of Targeted Investors	(A) Participating Parties: comprising a number of institutions and companies, including investment funds, qualified foreign investors and companies, and Gulf investors with legal personality (for further details, please see Section (1) "**Terms and Definitions**"); and (B) Individual Subscribers. This tranche comprises Saudi natural persons including any divorced or widowed Saudi woman having minor children from a marriage to a non-Saudi individual, who is entitled to subscribe to the Offer Shares for her own benefit, in the names of her minor children, on the condition that she proves that she is divorced or widowed and the mother of her minor children, any non-Saudi natural person who is resident in the Kingdom who has a bank account with one of the Receiving Entities and GCC natural persons. Subscription of a person in the name of his divorcee shall be deemed invalid, and if a transaction of this nature is proved to have occurred, the law shall be enforced against the applicant. If a duplicate subscription is made, the second subscription will be considered void and only the first subscription will be accepted.
Total Offer Shares Available for each Targeted Investor Category in the Offering	
Number of Offer Shares Available to Participating Parties	Twenty-seven million, one hundred eighty thousand (27,180,000) shares representing 100% of the total number of Offer Shares. If there is sufficient demand by Individual Subscribers, and the Participating Entities subscribe to all the Offer Shares allocated to them, the Lead Manager shall have the right to reduce the Offer Shares allocated to Participating Entities to 24,462,000 Offer Shares, representing 90% of the total number of Offer Shares
Number of Offer Shares Available to Individual Subscribers	A maximum of two million, seven hundred eighteen thousand (2,718,000) shares, representing 10% of the total number of Offer Shares.
Subscription Method for each Targeted Investor Category	
Subscription Method for Participating Parties	Participating Parties as defined in Section (1) "**Terms and Definitions**" may apply for subscription. The Lead Manager will provide the Subscription Application Forms to the Institutional Subscribers during the Book-Building Period. After initial allocation, the Participating Entities shall complete Subscription Application Forms, which will be made available to them by the Bookrunner in accordance with the instructions mentioned in Section (16) "**Details on Shares and Subscription Terms & Conditions**".
Subscription Method for Individual Subscribers	Subscription Application Forms will be available during the Offering Period for Individual from the Lead Manager and Receiving Entities. Subscription Application Forms shall be completed in accordance with the instructions mentioned in Section (16) "**Details on Shares and Subscription Terms & Conditions**". Individual Subscribers who have recently participated in previous initial public offering can also subscribe through the internet, telephone banking, or ATMs of any of the Receiving Entities or branches thereof that offer any or all such services to its customers, provided that the following requirements are satisfied: (i) the Individual Subscriber has a bank account with a Receiving Entity that offers such services and (ii) there have been no changes in the personal information or data of the Individual Subscriber since such person's subscription in the last offering.
Minimum Number of Offer Shares that can be Subscribed for by each Targeted Investor Category	
Minimum Number of Offer Shares that can be Subscribed for by Participating Parties	One hundred thousand (100,000) shares
Minimum Number of Offer Shares that can be Subscribed for by Individual Subscribers	Ten (10) shares.
Minimum Subscription Amount for each Targeted Investor Category	
Minimum Subscription Amount for Participating Parties	SAR 1,600,000

Minimum Subscription Amount for Individual Subscribers	SAR 160
Maximum Number of Offer Shares that can be Applied for by each Targeted Investor Category	
Maximum Number of Offer Shares that can be Applied for by Participating Parties	Four million, five hundred twenty-nine thousand, nine hundred ninety-nine (4,529,999) shares
Maximum Number of Offer Shares that can be Applied for by Individual Subscribers	One million (1,000,000) shares.
Maximum Subscription Amount for each Targeted Investor Category	
Maximum Subscription Amount for Participating Parties	SAR 72,479,984
Maximum Subscription Amount for Individual Subscribers	SAR 16,000,000
Method of Allocation and Refund of Excess Subscription Amount for each Targeted Investor Category	
Allocation of Offer Shares to Participating Parties	The number of Offer Shares to be initially allocated to the Participating Parties will be twenty-seven million, one hundred eighty thousand (27,180,000) shares, representing one hundred percent (100%) of the total number of Offer Shares, with the final allocation made after the end of the Individual Subscribers' subscription. In the event that Individual Subscribers subscribe for the Offer Shares allocated thereto, the Bookrunner shall have the right to reduce the number of Offer Shares allocated to the Participating Parties to twenty-four million, four hundred sixty-two thousand (24,462,000) shares, representing ninety percent (90%) of the Offer Shares after completion of the Individual Investor subscription process.
Allocation of Offer Shares to Individual Subscribers	Allocation of the Offer Shares to Individual Subscribers is expected to be completed no later than 21/11/1441H (corresponding to 12/07/2020G). The minimum number of Offer Shares that can be subscribed for is ten (10) shares, while the maximum number is one million (1,000,000) Shares. The remaining Offer Shares, if any, will be allocated as proposed by the Issuer and the Financial Advisor. In the event that the number of Individual Subscribers exceeds two hundred seventy-one thousand, eight hundred (271,800) Individual Subscribers, the Company will not guarantee the minimum allocation of ten (10) Offer Shares per Individual Subscriber and the allocation of Offer Shares to Individual Subscribers will be determined at the discretion of the Issuer and Financial Advisor.
Refund of Excess Subscription Monies	Excess subscription monies, if any, will be refunded to Subscribers without any charge or commission being withheld by the Lead Manager or Receiving Entities. Announcement of the final allotment on 21/11/1441H (corresponding to 12/07/2020G) and refund of excess subscription monies, if any, will be made no later than 23/11/1441H (corresponding to 14/07/2020G) (for further details, see Sub-section "**Allocation of Shares and Refund of Excess Subscription Monies**" in Section (16) "**Details on Shares and Subscription Terms & Conditions**").
Offering Period for Individual	The Offering Period for Individual will commence on 11/11/1441H (corresponding to 02/07/2020G), and will remain open for a period of four days up to and including the closing day on 14/11/1441H (corresponding to 05/07/2020G).
Dividend Distributions	The Offer Shares will be entitled to their portion of any dividends declared by the Company as of the date of this Prospectus and for subsequent financial years (for further details, see Section (7) "**Dividend Distribution Policy**").

Voting Rights	The Company has one class of Ordinary Shares only. None of the Shares carry any preferential voting rights. Each Share entitles its holder to one vote and each Shareholder has the right to attend and vote at the meetings of the General Assembly. (Please see Sub-sections "**Summary of Company's Bylaws**" and "**Description of Shares – Voting Rights**" in Section (12) "**Legal Information**" of this Prospectus.)
Lock-up Period/ Restrictions on Shares	The period during which the Major Shareholders shall be subject to a lock-up period of six (6) months from the date on which trading of the Offer Shares commences on the Exchange. During such period, the Major Shareholders may not dispose of any of their Shares. After the end of the Lock-up Period, they may dispose of their Shares without prior approval from CMA.
Listing of Shares	Prior to the Initial Public Offering, the Company Shares have not been listed in the Kingdom or elsewhere. An application has been made to the CMA for the registration and admission to listing of the Shares on the Saudi Stock Exchange (Tadawul), and all the relevant approvals required to conduct the Offering have been granted. Trading is expected to commence on the Exchange after the final allocation of the Shares (for further details, see Section "**Key Dates and Subscription Procedures**" of this Prospectus).
Risk Factors	There are certain risks related to investment in the Offer Shares. These risks can be categorized into: (A) risks related to the Company's activity and operations; (B) risks related to the market; and (C) risks related to the Offer Shares. These risks are described in Section (2) "**Risk Factors**" of this Prospectus and should be considered carefully prior to making an investment decision in relation to the Offer Shares.
Offering Expenses	The Offering expenses amount to about fifteen million (15,000,000) Saudi riyals, including the fees of the Financial Advisor, Lead Manager, Underwriter, Receiving Entities, Legal Advisor, Financial Due Diligence Advisor, and Market Consultant, in addition to marketing, arrangement, printing and distribution and other expenses related to the Offering. These expenses will be fully borne by the Selling Shareholders, and deducted from the Offering Proceeds.
Underwriter	**NCB Capital Company (NCB Capital)** King Saud Road, NCB Regional Building P.O. Box 22216, Riyadh 11495 Kingdom of Saudi Arabia Tel: +966 (11) 874 7106 Fax: +966 (11) 406 0052 Website: www.alahlicapital.com E-mail: ncbc.cm@alahlicapital.com

Note: The "**Important Notice**" on page (i) and Section (2) "**Risk Factors**" should be read thoroughly prior to making a decision to invest in the Company's Shares offered in this Prospectus.

Key Dates and Subscription Procedures

Expected Offering Timetable	
Event	**Dates**
Offering Period for Individual	A period of four days starting from 11/11/1441H (corresponding to 02/07/2020G), until the end of 14/11/1441H (corresponding to 05/07/2020G)
Bidding and book-building period for Participating Entities	A period of eight days starting from 01/11/1441H (corresponding to 22/06/2020G), until the end of 08/11/1441H (corresponding to 29/06/2020G)
Deadline for submission of Subscription Application Forms based on the number of Offer Shares provisionally allocated for Participating Entities	11/11/1441H (corresponding to 02/07/2020G)
Deadline for payment of the subscription monies for Participating Entities based on the number of provisionally allocated Offer Shares	14/11/1441H (corresponding to 05/07/2020G)
Deadline for submission of Subscription Application Forms and payment of subscription monies (for Individual Subscribers)	14/11/1441H (corresponding to 05/07/2020G)
Announcement of final allotment of Offer Shares	21/11/1441H (corresponding to 12/07/2020G)
Refund of excess subscription monies (if any)	No later than 23/11/1441H (corresponding to 14/07/2020G)
Expected date of commencement of trading in the Exchange	Trading of the company shares in the market is expected to commence after fulfillment of all relevant statutory requirements. Trading will be announced in local newspapers and on the Tadawul website (www.tadawul.com.sa).

Note: The above timetable and dates therein are rounded. Actual dates will be communicated through announcements appearing in local daily newspapers published in the Kingdom in Arabic and on the Tadawul website (www.tadawul.com.sa), the Financial Advisor's website (www.alahlicapital.com), and the Company's website (www.amlakint.com).

How to Apply for the Offering

Subscription is restricted to the following two groups of investors:

Tranche (A): Participating Parties: This tranche comprises the parties entitled to participate in the book building process as specified under the CMA's Instructions on Book Building and Allocation of Shares in Initial Public Offerings (for further details, please see Section (1) "**Definitions and Abbreviations**"). Participating Parties can obtain Subscription Application Forms from the Bookrunner during the book-building process period and Subscription Application Forms from the Lead Manager after the provisional allocation. The Bookrunner shall, after the approval of the CMA is obtained, offer the Offer Shares to Participating Entities during the book-building period only. Subscriptions by Participating Entities shall commence during the Offering Period for Individual, which also includes the Individual Subscribers, in accordance with the terms and conditions detailed in the Subscription Application Forms. A signed Subscription Application Form must be submitted to the Lead Manager, which represents a legally binding agreement between the Selling Shareholders and the Participating Entity submitting the application.

Tranche (B): Individual Subscribers: This tranche comprises Saudi natural persons including any divorced or widowed Saudi woman having minor children from a marriage to a non-Saudi individual, who is entitled to subscribe to the Offer Shares for her own benefit, in the names of her minor children, on the condition that she proves that she is divorced or widowed and the mother of her minor children, any non-Saudi natural person who is resident in the Kingdom who has a bank account with one of the Receiving Entities and GCC natural persons. A subscription for shares made by a person in the name of his divorcee shall be deemed invalid and if and if a transaction of this nature is proved to have occurred, the law shall be enforced against the applicant. Subscription Application Forms for Individual Investors will be available during the Offering Period for Individual on the websites of the Receiving Entities offering this service. Individual Investors can also subscribe through the internet, telephone banking, or ATMs of any of the Receiving Entities that provide these services to its customers, provided that the following requirements are satisfied:

1. the Subscriber has a bank account at the Receiving Entity that offers such service.
2. there have been no changes in the personal information or data of the Subscriber (by way of removal or addition of any family member) since the Subscriber last participated in a recent initial public offering.

Subscription Application Forms must be filled out in accordance with the instructions contained in Section (17) "**Details on Shares and Subscription Terms & Conditions**". Each Applicant must accept all the relevant items in the Subscription Application Form. The Company reserves the right to decline any subscription application, in part or in whole, in the event that any of the subscription terms and conditions are not met. If a duplicate subscription is made, the second subscription will be considered void and only the first subscription will be accepted. The Subscription Application cannot be amended or withdrawn once submitted. Furthermore, the Subscription Application shall, upon submission, be considered a legally binding agreement between the Subscriber and the Company. (Please see Section (17) "**Details on Shares and Subscription Terms & Conditions**" in this Prospectus).

Summary of Key Information

This summary of key information is intended to give an overview of the information contained in this Prospectus. However, it does not contain all the information that may be important to investors. Accordingly, this summary must be treated as a brief introduction to the key information in this Prospectus. Persons wishing to subscribe for the Offer Shares are advised to read the entire Prospectus so that any decision to invest in the Offer Shares is based on the careful consideration of this Prospectus as a whole, in particular the Financial Statements and related notes as well as the information set forth under Section (2) "Risk Factors" and the "Important Notice" section. Definitions and abbreviations herein shall have the meanings ascribed thereto in Section (1) "Definitions and Abbreviations" and elsewhere in this Prospectus.

The Company

Overview

Amlak International for Real Estate Finance (hereinafter referred to as the "Company" or the "Issuer") is a Saudi joint stock company established under Commercial Registration No. 1010234356 dated 27/05/1428H (corresponding to 13/06/2007G), Minister of Commerce and Industry Resolution No. 132/S dated 25/5/1428H (corresponding to 11/06/2007G), SAMA License No. 2/ PU/201312 dated 21/02/1435H (corresponding to 24/12/2013G) and SAGIA License No. 102030115042 dated 19/12/1427H (corresponding to 09/01/2007G). The current Commercial Registration of the Company expires on 27/05/1443H (corresponding 31/12/2021G). The Company's registered address is P.O. Box 28088, Al Mathar Street, Riyadh, 11437, KSA the Company's headquarters were then transfer to their new location located at 3485 ath thumamah road, Al Rabie District Riyadh 13316 - 8450 P.O. Box 28088, Riyadh, 11437, KSA.

The Company was established as a closed joint stock company with a Share Capital of one billion (1,000,000,000) Saudi riyals divided into one hundred million (100,000,000) ordinary cash shares with a fully-paid nominal value of ten (10) Saudi riyals per share. At the Extraordinary General Assembly Meeting held on 02/09/1432H (corresponding to 02/08/2011G), the Shareholders decided to reduce the Share Capital from one billion (1,000,000,000) Saudi riyals to eight hundred seventy-seven million, five hundred thousand (877,500,000) Saudi riyals, as it exceeded the Company's needs. To reduce it, the Company was to purchase and cancel twelve million, two hundred fifty thousand (12,250,000) shares in accordance with the relevant provisions of the Companies Law. At its Meeting held on 09/06/1433H (corresponding to 30/04/2012G), the Extraordinary General Assembly decided to amend its previous decision on the reduction of the Share Capital from one billion (1,000,000,000) Saudi riyals to eight hundred seventy-seven million, five hundred thousand (877,500,000) Saudi riyals. Following this amendment, the Share Capital was to be reduced from one billion (1,000,000,000) Saudi riyals to nine hundred million (900,000,000) Saudi riyals, as it exceeded the Company's needs. To reduce it, the Company was to purchase and cancel ten million (10,000,000) shares in accordance with the relevant provisions of the Companies Law. At the Extraordinary General Assembly Meeting held on 19/08/1438H (corresponding to 16/05/2017G), the Shareholders decided to increase the Share Capital of the Company from fully-paid nine hundred million (900,000,000) Saudi riyals to fully-paid nine hundred three million (903,000,000) Saudi riyals through issuance of three hundred thousand (300,000) new shares at a value of three million (3,000,000) Saudi riyals, registered for some employees under the Employee Share Scheme. At the Extraordinary General Assembly Meeting held on 21/08/1439H (corresponding to 07/05/2018G), the Shareholders also approved the increase in the Company's Share Capital from fully-paid nine hundred three million (903,000,000) Saudi riyals to fully-paid nine hundred six million (906,000,000) Saudi riyals through issuance of three hundred thousand (300,000) new shares at a value of three million (3,000,000) Saudi riyals, registered for some employees under the Employee Share Scheme.

As of the date of this Prospectus, the Share Capital represents the current share capital of the Company following the recent increase. Below is the ownership structure of the Company before and after the Offering:

Table (2): The ownership structure of the Company before and after the Offering

Shareholders	Pre-Offering				Post-Offering			
	Number of Shares	Nominal Value (SAR)	Direct Ownership (%)	Indirect Ownership Percentage	Number of Shares	Nominal Value (SAR)	Direct Ownership (%)	Indirect Ownership Percentage
The Saudi Investment Bank	29,000,000	290,000,000	32.01%	N/A	20,300,000	203,000,000	22.41%	N/A
Amlak Finance	23,750,000	237,500,000	26.21%	N/A	16,625,000	166,250,000	18.35%	N/A
Al Tawfeek Development House	13,000,000	130,000,000	14.35%	N/A	9,100,000	91,000,000	10.04%	N/A
Almakarim International for Real Estate Development	5,100,000	51,000,000	5.63%	N/A	3,570,000	35,700,000	3.94%	N/A
Aseer Company for Trading and Tourism	5,000,000	50,000,000	5.52%	N/A	3,500,000	35,000,000	3.86%	N/A
Al Bawarej International Development & Real Estate Investment Company	2,550,000	25,500,000	2.81%	N/A	1,785,000	17,850,000	1.97%	N/A
Sami Saeed Ali Al-Angari	2,550,000	25,500,000	2.81%	N/A	1,785,000	17,850,000	1.97%	N/A
Al-Nawasi Al-Arabia for Development and Advancement	2,550,000	25,500,000	2.81%	N/A	1,785,000	17,850,000	1.97%	N/A
Abdullah Ibrahim Sulaiman Al-Howaish	2,062,500	20,625,000	2.28%	N/A	1,443,750	14,437,500	1.59%	N/A
Zarabi Al-Arabia for Development and Advancement	1,250,000	12,500,000	1.38%	N/A	875,000	8,750,000	0.97%	N/A
Mohammed Abdulrahman Sulaiman Al-Farraj	750,000	7,500,000	0.83%	N/A	525,000	5,250,000	0.58%	N/A
Abdullah Khalid Abdullah Al-Melhem	750,000	7,500,000	0.83%	N/A	525,000	5,250,000	0.58%	N/A
Sulaiman Mohammed Sulaiman Al-Romaih	750,000	7,500,000	0.83%	N/A	525,000	5,250,000	0.58%	N/A
Abdulaziz Abdulrahman Abdullah Al-Modaimegh	750,000	7,500,000	0.83%	N/A	525,000	5,250,000	0.58%	N/A

Shareholders	Pre-Offering				Post-Offering			
	Number of Shares	Nominal Value (SAR)	Direct Ownership (%)	Indirect Ownership Percentage	Number of Shares	Nominal Value (SAR)	Direct Ownership (%)	Indirect Ownership Percentage
Abdullah Turki Saad Al Sudairy	300,000	3,000,000	0.33%	N/A	210,000	2,100,000	0.23%	N/A
Tawfiq Yahya Hassan Maafa	97,500	975,000	0.11%	N/A	68,250	682,500	0.08%	N/A
Saud Abdullah Abdulrahman Al Shathri	85,000	850,000	0.09%	N/A	59,500	595,000	0.07%	N/A
Nizar Saleh Ibrahim Al Suwaiyan	52,500	525,000	0.06%	N/A	36,750	367,500	0.04%	N/A
Osama Mirza Saleh Al-Khanzeri	50,000	500,000	0.06%	N/A	35,000	350,000	0.04%	N/A
Mohammed Habeeb Mohammed Al Salman	42,500	425,000	0.05%	N/A	29,750	297,500	0.03%	N/A
Abdullah Saad Ali Al Shathri	40,000	400,000	0.04%	N/A	28,000	280,000	0.03%	N/A
Ali Mohammed Zafir Alshashaa	40,000	400,000	0.04%	N/A	28,000	280,000	0.03%	N/A
Turki Otaibi Moaid Al Zahrani	27,500	275,000	0.03%	N/A	19,250	192,500	0.02%	N/A
Rashed Khalid Rashed Al Madyan	27,500	275,000	0.03%	N/A	19,250	192,500	0.02%	N/A
Khaled Ibrahim Mohamed Al-Aqeel	15,000	150,000	0.02%	N/A	10,500	105,000	0.01%	N/A
Omar Sulaiman Abdulaziz Abanomia	10,000	100,000	0.01%	N/A	7,000	70,000	0.01%	N/A
The Public	-	-	-	-	27,180,000	271,800,000	30.00%	-

Source: The Company.

Principal Activities of the Company

The Company's main activity is to engage in the real estate finance business for companies and individuals in accordance with the Companies Law, the Law on Supervision of Finance Companies and its Implementing Regulations, the relevant regulations and the rules and instructions issued by the competent authorities.

The Company operates through three branches:

- Riyadh Branch
- Jeddah Branch
- Khobar Branch

The Company offers real estate finance with three financing products:

- Murabaha
- Ijara
- Ijara mawsofa fi athemmah

The Company has a customer base of high net worth individuals as well as companies, and provides its business and products upon review and approval by the Company's Sharia Board.

Vision and Mission

Vision

To be the Sharia-compliant real estate financier of choice for individuals and companies.

Mission

- Offer our customers innovative, value-added financial solutions based on a long-term relationship built on confidence and mutual benefit.
- Maximize the sustainable value of our shareholders' investments, by balancing economic rewards and risks.
- Recognize our people as a treasured resource, and act as a catalyst to unlock their potential and expand personal horizons.
- Promote constructive participation to meet society's aspirations for real estate ownership.

Values

The Company adopts distinguished values, through which it seeks to achieve its objectives as follows:

- Innovation: Proactively changing, reinventing and evolving, to stay relevant in an ever-changing marketplace
- Leadership: Being the standard-bearer in each of the business segments we operate in, offering an unsurpassed value proposition to meet and exceed customer needs
- Trust: Maintaining strong and enduring relationships with all stakeholders, based on transparency, mutual respect and fair play.
- Competence: Developing market-leading capabilities by being professional, inclusive and meritocratic
- Ownership: Being accountable to customers, shareholders, employees and societies, in pursuit of balanced and sustainable returns and growth

Strategy

Amlak International aims to be a leading provider of Sharia-compliant real estate finance services through review and approval by the Company's Sharia Board, and to achieve balanced and steadily increasing revenues, thus establishing its leading position within the real estate finance industry in Saudi Arabia. As a driver of its success, the Company has an experienced team that implements the Company's strategy, with stable performance and high productivity.

The Company's strategic objectives are based on the following initiatives:

- Digital and technical transformation
- Capital structure management
- Cooperation with government and private sectors
- Development of corporate and high-net-worth investors
- Risk management
- Saudization and talent management
- Continuous development of customer service

Competitive Advantages of the Company

- The largest non-bank real estate financer
- A sound and strong financial position
- Professional and efficient staff capable of serving customers
- Strong and comprehensive relationships with strategic partners
- Effective governance structure enabling the Board and its committees to efficiently carry out their duties
- Unique brand

Summary of Market Information

Market Overview

The data and information related to the real estate finance sector in the Kingdom contained in this section have been derived from publicly available information. However, there is no reason to believe that this information is inaccurate or incorrect. Therefore, the Board, Shareholders and Advisors have not independently verified the accuracy of this data and information, and thus there is no guarantee that such information is accurate and complete.

Saudi Economy

The Saudi economy is showing signs of improving economic fundamentals. According to SAMA, Saudi Arabia's nominal GDP grew by about 6.5%, from SAR 2.42 trillion in 2016G to SAR 2.58 trillion in 2017G. Moreover, the Kingdom ranked 20th among the world's economies in 2017G by nominal GDP. A further indicator of the robust Saudi economy is the increase in GDP per capita to 78,965 Saudi riyals in 2017G compared to 76,083 Saudi riyals in 2016G.

Table (3): Key Macroeconomic Indicators

Indicator	2012G	2013G	2014G	2015G	2016G	2017G
GDP at current prices (SAR billion)	2,759.9	2,799.9	2,836.3	2,453.5	2,418.5	2,575.3
Real GDP (annual growth rate)	5.4	2.7	3.7	4.1	1.7	(0.9)
Population (million)	29.2	30.0	30.8	31.4	31.8	32.6
GDP per capita (SAR)	94,531	95,300	94,553	79,425	76,083	78,965
Budget surplus / deficit (SAR million)	329,340	157,878	(100,462)	(388,599)	(311,065)	(238,494)
CPI Inflation (annual percent change)	2.9	3.5	2.2	1.2	2.1	(0.8)
Trade balance (SAR billion)	873.03	778.94	632.25	108.28	162.79	327.43

Source: Saudi Arabian Monetary Authority, 2012G- 2017G.

Despite contraction of real GDP, the Saudi economy managed to significantly reduce the budget deficit in 2017G compared to 2016G, due to the implementation of several government reforms and initiatives aimed at diversifying the economy and decreasing dependence on oil. As a result, the percentage of non-oil revenues out of total government revenues increased from 27% in 2016G to 37% in 2017G.[1]

(1) IMF, June 2018G; SAMA Annual Statistics for 2017G; SAMA Annual Statistics for 2017G.

The Kingdom has made significant progress in implementing its ambitious reform program within the framework of NTP 2020G as part of Vision 2030. In order to diversify the Saudi economy to become less dependent on oil revenues, the government has made several economic and social policy decisions, such as introducing VAT, reducing energy subsidies, supporting entertainment areas and thus creating a more dynamic private sector and as well as generating more jobs for citizens.

The estimated expenditure of the Saudi budget grew by 9.88%, from SAR 890 billion in 2017G to SAR 978 billion in 2018G, which was allocated to improve the overall economic environment, as part of government efforts to encourage further private sector investments, increase public spending, and mitigate austerity measures.

Population

The Kingdom's total population increased from 27.14 million in 2010G, to 32.55 million in 2017G, with a CAGR of 2.6%. According to World Bank estimates, the population is likely to grow at a CAGR of 1.6% between 2018G and 2025G to 34.14 million in 2020G and then to 36.96 million in 2025G. Furthermore, Saudi Arabia has a young population with 37% of the total population aged 15 to 34, which will increase demand for housing.

Table (4): Population growth 2010G - 2025G

Year	2010G*	2017G*	2020G**	2025G**
Population (million)	27.14	32.55	34.14	36.96

Source: * Saudi Arabia General Authority for Statistics, 2017G, ** World Bank forecasts.

The distribution of population by nationality shows that 63% of the population was Saudi and 37% was non-Saudi in 2017G compared to 69% Saudi and 31% non-Saudi in 2010G.

Table (5): Distribution of population by nationality, 2017G

Nationality	Population	Percentage
Saudis	20,408,362	63%
Non-Saudis	12,143,974	37%
Total	**32,552,336**	**100%**

Source: Saudi Arabia General Authority for Statistics, 2017G.

The distribution of population by region also shows that the Western Region and Central Region together constitute about 64% of the Kingdom's total population. The highest percentage of the population is concentrated in the Western Region (34%), followed by the Central Region (30%).

Table (6): Distribution of population by Region, 2017G

Region	Population	Percentage
Western Region	11,166,617	34%
Central Region	9,640,219	30%
Eastern Region	4,900,325	15%
Southern Region	4,361,665	13%
Northern Region	2,483,510	8%
Total	**32,552,336**	**100%**

Source: Saudi Arabia General Authority for Statistics, 2017G.

The Saudi Real Estate Finance Sector

The Saudi real estate market is composed mainly of six specialized real estate financers and commercial banks that offer various types of real estate financing to citizens and expatriates. All such financers are Saudi joint stock companies. In addition, 34 financers were licensed to operate in Saudi Arabia in 2017G, of which six offer real estate financing to customers while the remaining 28 offer financial products other than real estate financing.

Summary of Financial Information

The financial information below should be read in conjunction with the audited financial statements of the Company for the financial years ended 31 December 2016G, 2017G and 2018G and the six-month period ended 30 June 2019G, along with notes thereto included elsewhere in this Prospectus. The amended financial statements for the year ended 31 December 2016G derived from the financial statements for 2017G and the financial statements for the year ended 31 December 2017G derived from the financial statements for 2018G have been used in the table below.

Table (7): Summary of financial information

Audited Statement of Income (SAR 000)	Year ended 31 December 2016G (Amended)	Year ended 31 December 2017G	Year ended 31 December 2018G	Six-month period ended 30 June 2018G (Amended)	Six-month period ended 30 June 2019G
Total income from Ijara, Murabaha, Ijara mawsofa fi athemmah, Fee and commission income and Gain on sale of portfolio	260,387	267,414	267,083	129,411	137,561
Transaction processing and evaluation fees[1]	-	(1,422)	(1,581)	(690)	(1,524)
Borrowing costs	(81,809)	(91,755)	(88,087)	(43,419)	(47,362)
Other income	-	-	226	226	593
Gain on sale of portfolio	133	-	-	-	-
Share in net profit from joint ventures	12,797	8,911	(240)	-	-
Arrangement fees	530	500	268		-
Depreciation and write off[2]	-	(2,054)	(3,044)	(1,100)	(1,249)
General and administrative expenses	(64,627)	(65,046)	(66,802)	(32,765)	(35,887)
Selling and marketing expenses	(8,920)	(8,955)	(8,208)	(3,595)	(5,205)
Impairment in properties and equipment	-	(2,905)	(2,100)	-	-
Impairment allowance for credit losses, net	(9,451)	(1,434)	98	-	1,678
Income before zakat and income tax	109,040	103,254	97,613	48,068	48,605
Zakat & income tax for the period	-	-	-	(1,569)	(8,723)
Zakat and income tax for the previous period	-	-	-	-	(16,608)
Net income	**109,040**	**103,254**	**97,613**	**46,499**	**23,279**

Source: Audited Financial Statements and the Company.

(1) Transaction processing and evaluation fees for 2016G have been included in Total income from Murabaha, Ijara and Ijara mawsofa fi athemmah.

(2) Depreciation for 2016G was recognized in general and administrative expenses.

(3) Starting from the financial statement for the second quarter 2019G, the company has modified the recognition of the Zakat and Income Tax to be reported in the income statement, to be in line with the latest instructions issued by SAMA on July 17, 2019G.

Statement of Financial Position (SAR 000)	31 December 2016G (Amended)	31 December 2017G	31 December 2018G	31 December 2018G (Amended)	30 June 2019G
Assets					
Cash and cash equivalents	9,347	29,634	15,965	15,965	67,480
Murabaha receivables, net	432,042	260,749	108,256	108,256	85,824
Ijara receivables, net	2,537,413	2,744,421	2,902,822	2,902,822	2,933,492
Ijara Mawsofa Fi Athemmah receivables, net	120,218	116,696	79,662	79,662	63,873
investment	10,988	12,887	-	12,484	12,827
Investments at fair value through other comprehensive income (FVOCI)	-	-	12,484	-	-
Positive fair value of derivatives	2,582	1,046	1,087	1,087	453
Prepayments and other assets	34,921	103,218	106,985	106,984	100,763
Deferred tax assets	-	-	-	516	509
Investment in joint ventures	112,824	29,530	7,922	7,922	5,050
Property and equipment, net	29,182	28,899	27,838	27,838	56,664
Total assets	**3,289,517**	**3,327,080**	**3,263,020**	**3,263,536**	**3,326,935**
Liabilities					
Account payables and other accrual	40,392	68,312	92,086	92,086	102,625
Zakat and income tax payable	4,003	3,722	36,790	36,790	33,004
Borrowings	2,102,270	2,072,175	1,994,132	1,994,132	2,027,064
Negative fair value derivatives	746	666	-	-	3,197
Employee's end of service benefits	8,834	12,909	13,618	13,618	15,053
Total liabilities	**2,156,245**	**2,157,784**	**2,136,626**	**2,136,626**	**2,180,943**
Shareholders' equity					
Share Capital	900,000	903,000	906,000	906,000	906,000
Statutory reserve	41,329	51,654	61,415	61,415	61,415
AFS Reserve	(1,012)	887	-	-	-
Fair value reserve	-	-	(409)	(409)	-
Cash flow hedge reserve	1,836	380	1,087	1,087	(2,745)
Retained earnings	191,119	213,375	158,301	158,817	181,322
Total shareholders' equity	**1,133,272**	**1,169,296**	**1,126,394**	**1,126,910**	**1,145,992**
Total liabilities and share-holders' equity	**3,289,517**	**3,327,080**	**3,263,020**	**3,263,536**	**3,326,935**

Source: Audited Financial Statements and the Company.

Statement of Cash Flows (SAR 000)	Year ended 31 December 2016G (Amended)	Year ended 31 December 2017G	Year ended 31 December 2018G	Six-month period ended 30 June 2018G (Amended)	Six-month period ended 30 June 2019G
Net cash used in/from operating activities	(177,719)	29,089	120,514	225,038	21,680
Net cash used/from investment activities	7,106	87,529	11,954	9,679	(2,560)
Net cash from/used in financing activities	169,614	(96,331)	(146,138)	(202,942)	32,395

Source: Audited Financial Statements and the Company.

Financial Benchmarks	Financial year ended 31 December			Six-month period ended	
	2016G	2017G	2018G	30 June 2018G	30 Jun 2019G
Return on assets (%)	3.3%	3.1%	3.0%	1.4%	0.7%
Return on shareholders' equity (%)	9.6%	8.8%	8.7%	4.1%	2.0%
Earnings per share before zakat (SAR)	1.2	1.1	1.1	0.53	0.54
Earnings per share after zakat (SAR)	1.2	1.1	1.1	0.51	0.26
Dividend per share for the period (SAR)	0.75	0.75	0.75	0.75	-
Total loans/total shareholders' equity (once)	1.9	1.8	1.8	1.7	1.8
Net financing receivables to Borrowing	1.5	1.5	1.5	1.5	1.5
Net financing receivables to Shareholders Equity	2.7	2.7	2.7	2.7	2.7
Adjusted net income* (SAR 000)	106,114	100,537	95,132	Not applicable for six months	Not applicable for six months
Average financing cost of the Company (%)	4.1%	4.4%	4.3%	Not applicable for six months	Not applicable for six months
Average financing margin (%)	4.6%	4.0%	4.0%	Not applicable for six months	Not applicable for six months

Source: Company - * Adjusted net income: In 2016G, 2017G and 2018G, net income has been adjusted by deducting zakat from the income statement (given the audited financial statements of the Company have been prepared in accordance with SAMA's instructions, pursuant to which the amount of zakat for the period is deducted from total equity in the statement of financial position). Starting from the fincnial statement for the second quarter 2019G, the company has modified the recognition of the Zakat and Income Tax to be reported in the income statement, to be in line with the latest instructions issued by SAMA on July 17, 2019G.

The Company supplements its financial statements prepared in accordance with International Financial Reporting Standards (IFRS) with financial benchmarks that do not comply with IFRS, including earnings per share before zakat, earnings per share after zakat, dividend per share, adjusted net income. These benchmarks do not use a uniform scale and may be calculated differently by other companies. Therefore, the benchmark used by the Company may not be comparable to benchmarks provided by other companies and should not be relied upon in lieu of the audited financial statements of the Company prepared in accordance with IFRS. For more information on how to calculate these financial benchmarks, please refer to Section (6) "**MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE COMPANY'S FINANCIAL POSITION**".

Summary of risk factors

Before deciding to subscribe for the Offer Shares, Prospective Subscribers are advised to carefully consider all of the information contained in this Prospectus, particularly the risks described below, which are addressed in detail in Section (2) "**Risk Factors**" of this Prospectus.

Risks Related to the Company's Business:

- Risks Related to the Company's Strategy.
- Risks Related to Existing Financing Agreements.
- Risks Related to the Company's Ability to Obtain Future Financing.
- Risks Related to Higher Financing Cost.
- Risks Related to Execution on Customer Guarantees.
- Risks Related to the Interpretation of Sharia Principles Relating to Ijara and Murabaha Contracts.
- Risks Related to Capital Adequacy and Enhanced Coverage of Risk and Reserve Ratios on Statutory Capital.
- Risks Related to Working Capital.
- Risks Related to Changes in Accounting Principles or Policies
- Risks Related to Transactions and Agreements with Related Parties.
- Risks Related to the Company's Revenue Concentration.
- Risks Related to the Company's Customer Concentration.
- Risks Related to Zakat Disputes.
- Risks Related to the Implementation of Value Added Tax (VAT).
- Risks Related to Competition.
- Risks Related to Individual and SME Customers.
- Risks Related to Geographic Concentration.
- Risks Related to Reputation
- Risks Related to Anti-Money Laundering, Risk Management, Counter-Terrorism Policies and Procedures and Other Relevant Regulations and Instructions.
- Risks Related to IT Systems.
- Risk Related to Litigation.
- Risks Related to Employee Misconduct and or Errors.
- Risks Related to Inadequacy of Insurance Coverage.
- Risks Related to Lack of Experience in Managing Listed Companies.
- Risks Related to Transactions and Contracts of Sale of the Company's Financing Portfolios.
- Risks Related to Customers' Payment Default.
- Risks Related to Construction and Lower Return on Investment.
- Risks Related to Shareholders and Board Members Engaging in Business Competing with the Company's Business.
- Risks Related to Default of Investment Companies.
- Risks Related to Human Resources, Reliance on Key Personnel and the Ability to Attract Qualified Individuals.
- Risks Related to Non-Compliance with Labor Regulations Concerning Saudization.
- Risks Related to Non-Compliance with Laws and Regulations.
- Risks Related to Risk Management Systems, Policies and Procedures.
- Risks Related to Protection of the Company's Trade Name and Intellectual Property Rights.
- Risks Related to Non-Compliance with SAMA Regulations and Circulars
- Risks Related to Registration of Real Estate Deeds.
- Risks Related to Failure to Renew the Licenses of the Company and its Subsidiary.

- Risks Related to Violations of SAGIA Regulations and Circulars, and the Regulation on Ownership and Investment in Real Estate by Non-Saudis.
- Risks Related to the Responsibilities of Directors and Senior Officials.

Risks Related to the Market:

- Competition with the Company's Business.
- Fluctuations in the Real Estate Market.
- Regional Geopolitical Risks.
- Risks Related to Change in Overall Economic Performance.
- Difficult Liquidation of Real Estate Investments
- Risks Related to Change in Laws and Regulations.

Risks Related to the Offer Shares:

- Risks Related to Control by the Current Shareholders.
- Risks Related to Liquidity and Absence of a Prior Market for the Company's Shares.
- Risks Related to Distribution of Dividends and Restrictions Imposed on Distribution of Dividends by Financers
- Risks Related to Fluctuation in the Share Price
- Risks Related to Selling a Large Number of Shares in the Exchange, and Issuance of New Shares

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1. Terms and Definitions

Underwriting Agreement	The underwriting agreement to be entered into between the Company, the Selling Shareholders and the Underwriter in connection with the Offering.
Murabaha	A financing product designed to finance customers who wish to buy property from a third party, where the company buys the property from its owner and then sells it to the customer in installments with a specified profit margin fixed throughout the financing period under the Murabaha contract. The title deed is registered under the name of the customer and mortgaged to the Company for the financing amount as a guarantee of the customer's payment of the financing installments. Upon complete payment of the full financing installments, the mortgage is removed.
Ijara	A financing product designed to finance customers who wish to buy property from a third party, where the company buys the property from its owner (a third party), registers the title deed in the name of the company (the financier) and then leases the property to the customer (the borrower) for a certain period in return for lease payments with a promise given to the customer to own the property at the end of the lease term under the Ijara contract. At the end of the lease term and upon full payment of the lease payments, the title to the property is transferred, with the title deed conveyed to the customer as a donation in return for payment of the outstanding rent.
Ijara mawsofa fi athema	A financing product designed to finance properties under construction or off-plan sales units, where a property is purchased from the owner (the developer) in installments related to the construction stages and the percentage of construction completion, and leased to the customer under an Ijarah mawsofa fi athemmah contract with a promise given to the customer to own the property at the end of the lease term. The title deed of the property is conveyed to the company after the last payment of the unit purchase is made upon completion of the property and issuance of the deed. The customer pays a pre-delivery advance payment during the financing period, to be accounted for as a rent payment upon receipt of the unit, and continues to make rent payments until the end of the agreed lease period. The title to the property is then transferred to the customer, with the title deed of the property being conveyed thereto by way of donation in return for payment of the outstanding rent.
Al Istisna'a	A financing product designed to finance real estate projects and off-plan sale unit projects for real estate developers, where the developer is financed by the company to buy real estate units under construction from the developer and lease them to the customer under a forward Ijarah contract, with a promise to own. The project deed is registered in the name of the company as collateral for discharge of financial obligations and payment of rent installments by the developer. Upon payment by the developer of all rent installments, the title to the real estate unit is transferred to the developer, with the title deed of the real estate unit being conveyed thereto by way of donation.
Non-Recourse Agreement	An agreement, under which the lender or buyer of the portfolio bears the risk of non-payment by borrowers. The lender or the buyer of the portfolio bears this risk directly and cannot claim repayment or acquire the assets of any party not identified in the loan agreement, the seller of the portfolio or the company.
SIBOR	Saudi Interbank Offered Rate.
SIBOR +	Saudi Interbank Offered Rate in addition to the profit margin of the financer or banks.
Loan to Value (LTV)	A ratio used by banks and financing companies to represent the percentage limit of the financing to the value of the funded real estate asset. It is calculated by dividing the amount of the financing by the value of the funded real estate asset.
Fixed Interest	The interest rate that remains constant throughout the financing period.
Floating Interest	The interest rate that changes if the associated base interest rate changes, such as SIBOR.
Outstanding Profit	Profit on accounts of defaulting customers recorded net of financing receivables in the statement of financial position rather than the income statement to reduce the risk of collection. When repayments are due, outstanding profits are recorded in the income for the period in which repayment is made.
Profit Rate Swaps	An Islamic derivative to hedge against fluctuation of interest rates. It is an agreement between two counterparties, under which one flow of future financing payments is exchanged for another based on a fixed base amount. Typically, SIBOR swaps involve exchange of a fixed interest rate with a variable rate, or vice versa, to reduce or increase exposure to interest rate fluctuations or to obtain a marginally lower interest rate than would have been possible without swap.

Company's Main Operating System, T24	The basic banking system, which contains the customer database, along with data on Murabaha and Ijara transactions and other Company products for individuals and companies.
SBM Platform	System and data servers used for Company's data processing and server maintenance.
Gross Domestic Product (GDP)	Gross domestic product (the most comprehensive measure of the total economic activity in a country, representing the monetary value of all goods and services produced within the country's geographical boundaries over a given period).
GDP per capita	GDP per capita, which is a measure of the average per capita income of a country (calculated by dividing GDP by population).
Management	The Company's Management
Listing	Listing of securities in the Exchange either in the main exchange or over-the-counter, or where the context allows, the submission of an application for listing of securities.
Application Form	The application form used by the Participating Entities to bid for the Offer Shares during the book building process. This term (as applicable) includes the supplementary application form for adjustment of the price range.
Shares	Ninety million, six hundred thousand (90,600,000) shares with a fully paid nominal value of ten (10) Saudi riyals per share.
Offer Shares	Twenty-seven million, one hundred and eighty thousand (27,180,000) ordinary shares of the Company.
Directors	Members of the Company's Board of Directors.
Relatives and Family of the Individual	Spouse or minor children.
Secretary	Secretary of the Board of Directors
Exchange	Saudi Stock Exchange (Tadawul)
Main Exchange	The exchange in which the Shares registered and offered are traded under Chapter IV of Rules on the Offer of Securities and Continuing Obligations.
Official Gazette	Um Al Qura, the official Gazette of the Government of Saudi Arabia.
General Assembly	The Ordinary or Extraordinary General Assembly of the Company's shareholders.
Ordinary General Assembly	The ordinary general assembly of the Shareholders convened in accordance with the Bylaws.
Extraordinary General Assembly	The extraordinary general assembly of the Shareholders convened in accordance with the Bylaws.
The Public	Persons other than those listed below: 1- Affiliates of the Issuer 2- Major shareholders in the Issuer 3- Board members and senior executives of the Issuer 4- Directors and senior executives of the affiliates of the Issuer; 5- Members of the Boards of Directors and senior executives of the Major Shareholders of the Issuer 6- Any relatives of the persons referred to in (1, 2, 3, 4, or 5) above 7- Any company controlled by any person referred to in clause (1, 2, 3, 4, 5 or 6) above 8- Persons working together and, collectively, holding (5%) or more of the share class to be listed.
Receiving Entities	The receiving entities whose names are mentioned in Page (viii) of this Prospectus.
Instructions on Book Building and Allocation of Shares in Initial Public Offerings	The Instructions on Book Building and the Allocation of Shares in Initial Public Offerings issued pursuant to CMA Board Decision No. 2-94-2016 dated 15/10/1437H (corresponding to 20/07/2016G) and its amendments issued pursuant to CMA Board Decision No. 3-102-2019G dated 18/01/1441H (corresponding to 17/09/2019G).
Government	The Government of the Kingdom of Saudi Arabia.
Chief Executive Officer	Chief Executive Officer of the Company.
Tadawul System	The automated Saudi securities trading system.
Chairman	The Chairman of the Company's Board of Directors.

Riyal or SAR	The Saudi Arabian Riyal, the lawful currency of the Kingdom of Saudi Arabia.
Offer Price	16 SAR per Share.
Financial Year	The financial year of the Company, starting from 1 January to 31 December of each financial year.
Person	A natural individual or corporate entity recognized as such by the Kingdom's laws.
Authorized Person	A person authorized to engage in securities business by the CMA.
The Company	Amlak International for Real Estate Finance under Commercial Registration No. 1010234356 dated 27/05/1428H (corresponding to 13/06/2007G).
Subsidiary	Amlak International for Real Estate Development Company.
Company's Investments	The Company's investments are currently limited to the Saudi Finance Lease Registration Company (a Saudi closed joint stock company), joint ventures and the Company's investment in Saraya Tower Real Estate Development Fund.
Company's Investments in Joint Ventures	A number of investments in residential real estate projects through several partnerships with a group of real estate developers in the Kingdom.
Company's Investments at Fair Value	The Company's investments at fair value in 120 units of Saraya Tower Real Estate Development Fund.
Saraya Tower Real Estate Development Fund	A closed real estate development fund managed by Alistithmar Capital with no maturity, and evaluated every six months.
Offering	The initial public offering of Offer shares.
Related Party	In this Prospectus and in accordance with Glossary of Defined Terms Used in the Regulations & Rules of the Capital Market Authority, issued by CMA Board Resolution No. 4-11-2004 dated 20/08/1425H (corresponding to 4/10/2004G), as amended by CMA Board Resolution No. 1-7-2018 dated 01/05/1439H (corresponding to 18/01/2018G), the term "**Related Party**" or "**Related Parties**" includes the following: 1- Affiliates of the Issuer. 2- Major Shareholders of the Issuer. 3- Directors and senior executives of the Issuer 4- Directors and senior Executives of the Affiliates of the Issuer. 5- Directors and senior executives of the Major Shareholders of the Issuer. 6- Any relatives of the persons referred to in (1, 2, 3, 4, or 5) above. 7- Any company controlled by any person referred to in clause (1, 2, 3, 4, 5 or 6) above. For the purposes of Paragraph (7), "control" means the ability to, directly or indirectly, influence the acts or decisions of another person, individually or collectively with a relative or affiliate, through any of the following: (a) holding 30% or more of the voting rights in the Company. (b) the right to appoint 30% or more of the administrative staff; the word "controlling" shall be construed accordingly.
Participating Parties or Participating Entities	This tranche comprises a number of institutions and companies, including investment funds, qualified foreign investors, and Gulf investors with legal personality. The entities that are entitled to participate in the Book Building Process are: a- Public and private funds that invest in securities listed on the Saudi Stock Exchange as permitted by the fund's terms and conditions and in accordance with the provisions and limitations stipulated in the Investment Funds Regulations and the BookBuilding Instructions b- Authorized Persons who are licensed to deal in securities as a principle, in accordance with the Prudential Rules when submitting the bidding participation application; c- Clients of a person authorized by the CMA to conduct managing activities with the provisions and restrictions set forth in the Book-Building Instructions; d- Any legal persons allowed to open an investment account in the Kingdom, and an account with the depositary center, including foreign legal persons who are allowed to invest in the market where the shares of an issuer are to be listed, with regards to the conditions of listing companies investments in listed securities stipulated in the Authority's circular number (6/05158) dated 11/08/1435H corresponding to 09/06/2014G based on the Capital Market Authority's board resolution number (9-28-2014) dated 20/07/1435H corresponding to 19/05/2014G;

Participating Parties or Participating Entities	e- Government entities, any supranational authority recognized by the CMA, the Exchange, or any other stock exchange recognized by the CMA, or the Depositary Centre; f- Government owned companies, whether investing directly or through a portfolio manager; and g- GCC companies, and GCC funds if permissible according to the terms and conditions of such funds.
Application for Admission and Offer	Any application submitted to the CMA for admission and/or offer of securities of any kind.
Director	A member of the Board of Directors.
Offering Period for Individual	The Period which will commence on 11/11/1441H (corresponding to 02/07/2020G) and will remain open for a period of 4 days up to and including the subscription closing date to end at the end of 12/08/1441H (corresponding 05/04/2020G).
Lock-in Period	The period during which the Major Shareholders shall be subject to lock-up period of six months from the date on which trading of the Offer Shares commences on the Exchange. During such period, the Major Shareholders may not dispose of any of their Shares.
Financial Statements	The Company's financial statements presented in Saudi riyals. The Company's audited financial statements for the financial year ended 31 December 2016G, and the accompanying notes thereto included elsewhere in this Prospectus, have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), as stipulated in Article 71 of the Implementing Regulations of the Law on Supervision of Finance Companies. They were audited by the Company's Auditor Ernst & Young & Co (Public Accountants). The Company's audited financial statements for the financial years ended 31 December 2017G and 2018G and the six-month period ended 30 June 2019G, and the accompanying notes thereto included elsewhere in this Prospectus, have been prepared in accordance with the International Financial Reporting Standards as amended by SAMA. They were audited by the Company's Auditor KPMG Al Fozan & Partners (Public Accountants).
Listing Rules	The Listing Rules approved by CMA Board Decision No. (3-123-2017) dated 9/4/1439H, corresponding to (27/12/2017G), as amended by CMA Board Decision No. (1-104-2019) dated (01/02/1441H), corresponding to (30/09/2019G).
ROSCOs	Rules on the Offer of Securities and Continuing Obligations issued by the Capital Market Authority pursuant to Resolution No. 3-123-2017 dated 09/04/1439H (corresponding to 27/12/2017G) in accordance with the Capital Market Law passed by Royal Decree No. M/30 dated 02/06/1424H, and amended by CMA Board Resolution No. 1-104-2019 dated 01/02/1441H (corresponding to 30/09/2019G).
Corporate Governance Regulations	The Corporate Governance Regulations issued by CMA Board Resolution No. 8-16-2017 dated 16/05/1438H (corresponding to 13/02/2017G) as amended pursuant to CMA Board Resolution No. 3-57-2019 dated 15/09/1440H (corresponding to 20/05/2019G), and any amendments thereto.
IFR	The Investment Funds Regulations issued by CMA pursuant to Resolution No. (1-219-2006) dated 03/12/1427H (corresponding to 24/12/2006G) as amended by CMA Board Resolution No. 1-61-2016 dated 16/08/1434H (corresponding to 23/05/2016G).
Committees	The Company's Audit Committee, Nomination and Remuneration Committee, Executive Committee and Risk Management Committee.
Underwriter	NCB Capital Company ("**NCB Capital**")
Applicants	Institutional subscribers and individual subscribers.
The Board or Board of Directors	The Company's Board of Directors.
Senior Executives	The members of the Company's Senior Management, as defined in Table ([64]) "**Members of the Executive Management**".
Auditor	Ernst & Young & Co (Public Accountants) for the audited financial statements for the year ended 31 December 2016G. KPMG Al Fozan & Partners (Public Accountants) for the Company's audited financial statements for the financial years ended 31 December 2017G and 2018G and the six-month period ended 30 June 2019G.
Lead Manager	NCB Capital Company ("**NCB Capital**")
Bookrunner	NCB Capital Company ("**NCB Capital**")

Shareholders	Shareholders at any time.
Major Shareholders	Each person owning 5% or more of the Company's shares.
Selling Shareholders	The Company's Shareholders whose names and shareholding percentages are listed in Table ([50]) "**Direct Ownership Structure before and after the Offering**" and who will sell part of their shares in the Offering.
QFI	A qualified foreign investor authorized, in accordance with the Rules for Qualified Foreign Financial Institutions Investment in Listed Securities, to invest in listed securities. Qualification applications are submitted to a licensed person for evaluation and acceptance in accordance with the Rules for Qualified Foreign Financial Institutions Investment in Listed Securities.
Market Consultant	4SIGHT - Arabian Market Vision Co. Ltd.
Legal Advisor	The Law Office of Looaye M. Al-Akkas in Association with Vinson & Elkins LLP
Financial Advisor	NCB Capital Company ("**NCB Capital**")
Advisors	The Company's advisors in connection with the Offering, whose names appear on pages (vi) and (vii) of this Prospectus
Issuer	The Company
SOCPA	The Saudi Organization for Certified Public Accountants
IFRS	The International Financial Reporting Standards issued by the International Accounting Standards Board. The International Accounting Standards adopted by the Saudi Organization for Certified Public Accountants (SOCPA) are international accounting standards, as well as certain requirements and disclosures that have been added to certain standards by SOCPA and other standards and publications. These standards include those standards and technical releases that are endorsed by SOCPA for matters not covered by IFRS, such as the subject of Zakat.
Subscribers	They include **Individual Subscribers and Institutional Subscribers**.
Individual Subscribers	This tranche comprises Saudi natural persons including any divorced or widowed Saudi woman having minor children from a marriage to a non-Saudi individual, who is entitled to subscribe to the Offer Shares for her own benefit, in the names of her minor children, on the condition that she proves that she is divorced or widowed and the mother of her minor children, any non-Saudi natural person who is resident in the Kingdom who has a bank account with one of the Receiving Entities and GCC natural persons.
Kingdom/KSA	The Kingdom of Saudi Arabia
GOSI	General Organization for Social Insurance in the Kingdom of Saudi Arabia.
Financial Institutions	Banks and financial service companies.
SAMA	The Saudi Arabian Monetary Authority
Prospectus	The document required for a public offering or a parallel market offering under the Law and the Rules on the Offer of Securities and Continuing Obligations.
Bylaws	The Company's Bylaws approved by the Company's General Assembly.
Capital Market Law or CML	The Capital Market Law, promulgated by Royal Decree No. (M/30) dated 02/06/1424H (corresponding to 31/07/2003G) and any amendments thereto.
Companies Law	The Companies Law, promulgated by Royal Decree No. (M/3) dated 28/01/1437H (corresponding to 11/11/2015G) and any amendments thereto.
Real Estate Finance Law and its Implementing Regulations	The Real Estate Finance Law promulgated by Royal Decree No. M/50 dated 13/08/1433H and its Executive Regulations issued by Minister of Finance Resolution No. 1229 dated 10/04/1434H.
Law on Supervision of Finance Companies and its Implementing Regulations	The Law on Supervision of Finance Companies promulgated by Royal Decree No. M/51 dated 13/08/1433H, and its Implementing Regulations issued by SAMA Governor Resolution No. 2/MST dated 14/04/1434H.
Financing Disputes and Violations Settlement Committee	The Financing Disputes and Violations Settlement Committee formed according to Royal Decree No. (M/51) dated 13/08/1433H (corresponding to 03/07/2012G). The Committee has the jurisdiction to determine irregularities, disputes and lawsuits arising from the application of the Law on Supervision of Finance Companies and Financial Lease Law and their respective regulations, rules and instructions.

Subscription Application Form	The subscription application form for the Offer Shares.
CMA or the Authority	The Capital Market Authority of Saudi Arabia.
MCI	The Ministry of Commerce and Investment in Saudi Arabia
MLSD	The Ministry of Labor and Social Development in Saudi Arabia
Business day	Any day on which the Receiving Entities are operating in the Kingdom (except Fridays and Saturdays and any public holidays).

2. Risk Factors

Prospective investors should carefully consider the following risk factors, and all other information contained in this Prospectus, prior to making an investment decision with respect to the Offer Shares. The risks and uncertainties described below are those that the Company currently believes could affect the Company and any investment in the Offer Shares. The risk factors described below may not necessarily include all of the risks that may affect the Company or that are associated with investment in the Offer Shares. There may be other risks and uncertainties that are not currently known to the Board of Directors, or currently considered by the Board of Directors to be material. The occurrence or realization of any such risks or uncertainties may have a material adverse impact on the Company's business, financial position, results of operations and prospects. They may lead to a decline in the price of the Company's shares and affect its ability to distribute dividends to shareholders and may result in investors losing all or part of their investment.

Moreover, the Board of Directors confirm that, to the best of their knowledge and belief, there are no other material risks as of the date of this Prospectus, other than as stated in this Section, that may affect investors' decisions to invest in the Offer Shares. All prospective investors willing to subscribe to the Offer Shares should conduct an assessment of the risks related to the Company's shares and offering in general and the economic and regulatory environment in which the Company operates.

An investment in the Offer Shares is only suitable for investors who are capable of evaluating the risks and merits of such investment and who have sufficient resources to bear any loss that might result from such investment. Prospective investors who have doubts about which actions to take should refer to a financial advisor duly licensed by the CMA for advice about investing in the Offer Shares.

The risks stated below are not arranged in order of importance and their expected impact on the Company.

2.1 Risks Related to the Company's Business

2.1.1 Risks Related to the Company's Strategy

The Company's future performance depends on achieving the objectives of the Company's strategy to develop its long-term business. The Company's ability to achieve its strategy depends on its ability to diversify its funding sources and the target sectors of its business and expand its retail and corporate customer base, including SMEs and High Net Worth individuals. It also depends on its ability to enter into partnerships with the government sector, mainly represented by the Ministry of Housing's financing and refinancing programs and its ability to benefit from technology and effective marketing of its products and brands. The Company may not be able to implement the business plan to achieve this strategy. Moreover, the objectives of this strategy may depend largely on factors outside the control of the Company and may be affected by the performance of the general economy, oil prices, financing cost, the Ministry of Housing initiatives and other similar factors. These factors will adversely affect the Company's commercial success, business, financial position, results of operations and prospects.

2.1.2 Risks Related to Financing Agreements

A. Risks Related to Existing Financing Agreements

The Company relies on obtaining Sharia-compliant bank financing. The Company has facilities with nine (9) banks which enable the Company to obtain credit facilities of SAR3,652.5 million; the total amount borrowed is SAR 2,027.0 million as of 30/06/2019G (for more details, please refer to Section (6.4.13) "**Bank Loans**" and Section No. (6.9.12) "**Loans**"). In accordance with these agreements, the Company is committed to complying with a set of financial conditions and covenants related to the level of leverage and capital adequacy to cover the risk assets and assignment of the Company's revenues of financing contracts as collateral to repay loans with banks. Moreover, the Company is required under the existing financing agreements to assign revenues of its customer financing contracts at a loan coverage ratio of 120% to 130%. Generally, banks require some other conditions such as undertaking not to pledge or assign the revenues of financing contracts concluded with the Company's customers in favor of any other party. Furthermore, the Company is required to undertake to replace some contracts or pay the difference on its own account if the revenues from those contracts are delayed for more than ninety days, and not to sell or assign the Company's assets. It should be noted that the purpose of these requirements is to ensure that these financing contracts with the Company's customers are acceptable to lending banks and are not in default. If such requirements are violated, the Company shall replace those contracts whose revenues are assigned to the bank with other contracts (for more details, please see Table ([132]) "**Details of the Company's Loans as of 31 December 2018G**" in Section (6.4.13) "**Bank Loans**" and Table ([175]) "**Details of the Company's Loans as at 30 June 2019G**" in Section (6.9.12) "**Loans**"). Due to the large number of financing contracts and the loan amounts, in addition to the multiplicity of sales of the Company's financing portfolios, the volume of those operations may result in multiple and concurrent assignment of some contracts to more than one bank. In the event such an error occurs, the respective agreements will be deemed violated. Moreover, the default of the Company's customers on contracts whose revenue the Company has waived to such banks may negatively affect the Company's ability to continue to benefit from the banking facilities. It also may result in banks requiring the Company to prematurely repay the loan amounts if no alternative contracts are offered as collateral (for more details, please refer to Section (12.5.7) "**Company Financing Agreements and Related Hedging Agreements as of 31/07/2019G**" of this Prospectus).

In addition, financing agreements include provisions requiring the Company not to change its ownership or legal form without notifying these banks or obtaining their consent, including the sale of shareholders' shares in a public offering or otherwise, such as by increasing or decreasing the Company's capital.

Under these agreements, the Company also provides other guarantees related to the payment of dues and installments, such as amending coverage ratios in the event of a decrease in the value of the assigned revenues, refraining from creating any mortgage, concession or right on the Company's movable or immovable funds provided as collateral, providing promissory notes, or keeping certain amounts in its account with the financing entity (for more details, please see Section (12.5.7) "**Company Financing Agreements and Related Hedging Agreements as of 31/07/2019G**" of this Prospectus).

Lenders (whether the Company breaches or complies with any of its obligations and undertakings under its financing agreements) may terminate the obligations to provide facilities and require payment of all amounts due immediately or take all measures to obtain their rights under the relevant financing agreements including, without limitation, judicial execution on the guarantees provided by the Company, including those related to its financing contracts with its customers. Moreover, the lending banks may amend the terms of the agreement or suspend or reduce the financing facility agreement without notifying the Company, which would have a material adverse impact on the Company's business, results of operations, financial position and prospects.

If the Company fails to meet the cash flows required to repay its liabilities to its lenders or is unable to reschedule its loans, this would have a material adverse impact on the Company's credit standing and ability to obtain credit facilities in the future, in addition to having a material adverse impact on the Company's business, results of operations, financial position and prospects. Moreover, if the Company does not have enough assets to pay its debts, it may be declared bankrupt or subject to liquidation.

B. Risks Related to the Company's Ability to Obtain Future Financing

The Company's ability to obtain adequate financing depends largely on multiple internal and external factors that may be required by lenders or imposed by general economic conditions.

The internal factors related to the Company include, but are not limited to, the Company's financial position and the ratio of the debt outstanding to its assets and equity, which is known as the level of leverage, the Company's expected cash flows, credit standing, results of operations, willingness of the funders to finance the sectors in which the Company operates in, and the Company's ability to provide adequate guarantees to obtain the required facilities.

The Company's ability to access financing also depends on other external factors including, but not limited to, prevailing interest rates at the time of financing, the general economic condition including inflation and the purchasing power of individuals, property price trends, success of government housing programs, financial market position and cash available at the financing entities and commercial banks and SAMA directives. The Company may not be able to obtain the necessary financing to pay its future business in whole or in part, which would have a material effect on the Company's ability to achieve its strategies and objectives. Moreover, if the Company obtains the necessary funding on unfavorable terms or with a higher cost than what is expected by the Company, this will limit its business-related revenues and cash flows. Consequently, if the Company fails to obtain financing or obtains the same on unfavorable terms, this will have a material adverse impact on the Company's business, results of operations, financial position and prospects.

C. Risks Related to Higher Financing Costs

The Company's business depends on obtaining financing. Profit margins on financing mainly depend on the availability of liquidity with lenders and interest rates based on SIBOR. For example, the profit margin of Murabaha financing loans relies on the SIBOR being fixed for long periods throughout the Company's financing period. This may result in a higher cost of financing than other forms of financing in which SIBOR rates are variable according to the prevailing rates in the banking sector or fixed for short periods.

In addition, the surge in US interest rates, which usually affects SIBOR rates directly due to the riyal-dollar peg and the expansion of the government bond and sukuk program, could lead to higher domestic interest rates. The high cost of financing and the inability of the Company to provide suitable financing alternatives or transfer the effects of the increase to its customers through its financing products would have a material adverse effect on the Company's business, results of operations, financial position and prospects.

2.1.3 Risks Related to Execution on Customer Guarantees

The Company's financing contracts with its customers include clauses in which customers provide guarantees to cover their obligations to repay the financing provided to them by the Company including, but not limited to, promissory notes and personal guarantees.

The Company faces some challenges related to the Execution Law with respect to collection through the sale of defaulters' properties in an auction. For example, the Company tried to execute on the property of a customer by selling the mortgaged properties in an auction. However, the sale was not completed, as the bidders did not offer the valuation price of the property. The Execution Law and its Regulations provide that a property may not be sold in a public auction for a price less than the estimated value thereof unless the consent of the creditor and the debtor (the mortgagor) is obtained. Moreover, the Execution Law and its Regulations terminate the auctioning process if three auctions are held and the estimated value has not been offered.

Accordingly, if the Company is unable to execute on guarantees provided by customers or in the event of any change in the statutory tools granted to the execution judges, such as attachment, suspension of services, travel ban, etc., this would have a material adverse impact on the Company's business, results of operations, financial position and prospects.

2.1.4 Risks Related to the Interpretation of Sharia Principles Relating to Ijara and Murabaha Contracts Prior to Obtaining a License to Practice Real Estate Financing Activities from SAMA

The Company offers Sharia-compliant financing products, which are reviewed and approved by the Company's Sharia Committee. All these products are subject to the review and approval of the Company's Sharia Board. The Sharia Committee interprets the terms of Islamic financing contracts such as Ijara and Murabaha in accordance with the rules and principles of Islamic Sharia. While the various Islamic sects agree on the general methodology and basic principles related to interpretation of the jurisprudential rules of transactions, they may disagree on detailed rules.

This disagreement may result in the courts interpreting of the terms of financing contracts, such as leasing contracts, in a manner that is different from the interpretation of the Company's Sharia Committee. This may result in the Company not obtaining the revenues agreed upon in those contracts, which will have an adverse impact on the Company's business, results, financial position and prospects.

For example, in one case with a value of SAR 92,478, in which one of the Company's customers failed to pay the rent installments and the Company had transferred ownership of the property from the customer to the Company as part of the collateral provided, the General Court ruled that the transfer of ownership was null and void. In general, the Court based its decision on several factors, which generally refer to the lease clauses and related contracts being inconsistent with the customary practices prevalent in the lease of similar properties, according to the interpretation of the Court. It should also be noted that in the case the General Court rejected the Company's defense and argument that the General Court has no jurisdiction to consider this case and that jurisdiction to consider such disputes is exclusively conferred on the Financing Disputes and Violations Settlement Committee.

With respect to the customer in the above case, the Company filed a claim with the Financing Disputes and Violations Settlement Committee on 10/03/1439H to request that the customer pay the late installments that were invalidated by the General Court. However, the Committee decided that it had no jurisdiction over the dispute as the Company was licensed to conduct real estate finance activities on a date subsequent to the date of the contract. This means that the financing contract, subject of the dispute, is not governed by the provisions of the Finance Companies Law. The date of the contract is prior to the date on which the said license was obtained by the Company.

In another case dated 12/07/1435H, the General Court cancelled the obligation of a Company's customer to pay benefits under its lease contract. Under such contract, the customer transferred the ownership of its property to the Company and rented the same from the Company in return for a financing amount obtained and paid by the customer to the Company in the form of rental installments. The customer made the early payment and the Company transferred the property to the customer. However, the customer later filed a claim with the General Court arguing that the difference in the value paid to the Company compared to the original sale value paid by the customer represents a usurious payment and asked the court to return him the difference in the said amount. In this regard, the court agreed with the customer's case and ruled for the Company to pay to the customer the difference in the amount of money paid on the grounds that it represents usury.

Moreover, the risk increases in transactions in which the Company purchases the property from the customer and then leases it thereto. As in the case above, the court may decide that the transfer of ownership through the purchase and sale of the property is fictitious to circumvent a usurious loan and is not for the purpose of financing the customer to purchase the property that has been transferred to the Company.

As at 30/06/2019G, Ijara and Ijara mawsofa fi athemmah contracts were SAR 2,997.4 million, accounting for 97.2% of the net value of the Company's financing portfolio. About one hundred thirty-five (135) of the existing leasing contracts were concluded before the date of the license to practice real estate finance activity, with total amounts borrowed thereunder being about SAR 139.5 million. Such amount accounted for about 4.5% of the Company's net financing portfolio as at 30/06/2019G. Due to the interpretation of the general courts, which may differ from the contracts, and the decision of the Financing Disputes and Violations Settlement Committee that it has no jurisdiction to consider disputes relating to contracts that precede the date the Company obtained its license to engage in real estate finance activities, this will jeopardize the Company's ability to obtain its rights according to the contracts mentioned in the event that the terms of payment are not observed by the customers concerned. As at 31/12/2018G, Ijara and Ijara mawsofa fi athemmah contracts were SAR 2,982.5 million, accounting for 96.5% of the net value of the Company's financing portfolio.

If the dispute related to the jurisdiction of the general courts and the Financing Disputes and Violations Settlement Committee to consider cases related to the Company's contracts continues, there is a risk that the general courts may interpret contracts contrary to their apparent provisions, as stated in the above case. In addition, the general courts may have the inherent jurisdiction to consider issues related to real estate in accordance with the Law of Procedure before Sharia Courts. Such issues may arise from disputes related to properties, such as disputes concerning the boundaries and evacuation of property and disputes that might arise between heirs related to property funded by the Company.

In the event that the Company loses judicial disputes as mentioned, this will have a material adverse impact on the Company's business, results of operations, financial position and prospects.

2.1.5 Risks Related to Capital Adequacy and Enhanced Coverage of Risk and Reserve Ratios on Statutory Capital

The Company is subject to the laws, regulations and rules applied by SAMA with respect to, among other things, capital adequacy, enhanced risk coverage and reserve ratios on statutory capital to enhance capital position. Compliance with these regulations and instructions may increase business-related costs, and the Company may experience potential penalties if it fails to comply with those rules in the future. If such penalties occur, they will have an adverse impact on the Company's business, results of operations, financial position and prospects. The Company's business may be affected by future changes in policies, regulations and rules applicable to the real estate finance sector, including other government policies, such as those that limit the activities in which the Company can engage.

Due to its compliance with the specific ratios of risk exposures, the Company may need additional capital in the future should it incur unexpected losses in its operations. Additional capital sources may not be available or on favorable terms to comply with the requirements of future adequacy and solvency rules. This may cause the Company's capital to be reduced to minimize losses incurred. This will affect the capital available for use in the Company's operations, which materially affects the Company's results and financial position.

Moreover, if the Company is unable to obtain sufficient funds to meet capital requirements through financing arrangements, any increase in the Company's capital (by way of issuing new shares) may reduce the ownership of the shareholders.

Compliance with such changes may lead to changing the way the Company performs its business, which may have an adverse impact on the Company's business, services and products and the value of its assets.

2.1.6 Risks Related to Working Capital

The Company has working capital management strategies that focus on maintaining an effective balance of both current assets (maturing within one year or less) and current liabilities (maturing within one year or less) in accordance with the current ratio, which limit the risk related to working capital. These strategies aim to maintain an adequate cash flow to meet short-term debt and pay for its operating costs.

The Company's reliance on loans to finance working capital involves risks in finding easier credit terms. If the economic climate becomes less favorable, the Company may face stricter credit conditions or be excluded from access to much-needed loans. Moreover, the impairment of loan guarantees, which could damage its credit status and thus worsen its difficulties in obtaining financing, would have an adverse effect on the Company's business, financial position and results of operations.

2.1.7 Risks Related to Changes in Accounting Principles or Policies

IFRS 9 was adopted on 01/01/2018G, resulting in an increase in provisions by SAR 37.9 million. The impact was recorded by deducting the amount from retained earnings. SAR 88.0 million was deducted from the total financing portfolio as of 01/01/2018G. As of 31 December 2018G, the total provision was SAR 87.9 million compared to SAR 50.2 million as of 31/12/2017G (for more information, see Section (6.1.3) "Summary of Significant Accounting Policies and Basis of Preparation"). Any change in accounting standards or policies (e.g. the application of IFRS 16) will affect the Company, as the Company will have to amend its internal regulations, which will affect its business plan. If the Company does not comply with the change in accounting policies, it will be subject to penalties imposed by regulators (such as SAMA, the CMA and the Ministry of Commerce and Investment), which will adversely affect the Company's business, financial position and results of operations.

2.1.8 Risks Related to Transactions and Agreements with Related Parties

In the ordinary course of business, the Company deals with related parties such as directors, executives, their relatives, major shareholders and their subsidiaries and sister companies. These transactions and balances mainly relate to the provision of credit facilities and the sale of financing portfolios and leases, as well as other banking and investment services. The value of these transactions and balances amounted to SAR 690.1 million in the six-month period ended 30/06/2019G (for more details about agreements with related parties, please see Section (12.5.10) "**Agreements with Related Parties**").

Related parties transactions for the year ended 31/12/2018G amounted to SAR 41.3 million. The cost of facilities from the Saudi Investment Bank represented the main portion at SAR 23.5 million, accounting for 57% of the related parties' transactions. Rents and other expenses of ORIX Leasing Company (32% owned by the Saudi Investment Bank) amounted to SAR 1.6 million, accounting for 4% of the total related parties' transactions. Total Revenue from related parties amounted to SAR 0.3 million, accounting for 0.1% of the Company's total revenue.

As of 31/12/2018G, total balances with related parties amounted to SAR 525.2 million. The credit facilities extended by the Saudi Investment Bank accounts for the main portion of this at SAR 491.7 million, representing 94% of the total balances with related parties and 25% of the Company's facilities as of 31/12/2018G. Saraya Tower Real Estate Fund managed by the Alistithmar for Financial Securities Company represented 2% of the total transactions with related parties at SAR 11.6 million.

Related parties' transactions for the six-month period ended 30/06/2019G amounted to SAR 22.9 million. The cost of facilities from the Saudi Investment Bank represents the main portion of this at SAR 12.9 million, accounting for 56% of the related parties' transactions. Rents and other expenses of ORIX Leasing Company (of which 32% is owned by the Saudi Investment Bank) amounted to SAR 0.9 million, accounting for 4% of the total transactions with related parties.

As of 30/06/2019G, total balances with related parties amounted to SAR 667.2 million. The credit facilities extended by the Saudi Investment Bank accounts for the main portion of this at SAR 624.4 million, representing 94% of the total balances with related parties and 31% of the Company's facilities as of 30/06/2019G. Saraya Tower Real Estate Fund managed by the Alistithmar for Financial Securities Company represented 2% of the total transactions with related parties at SAR 11.9 million.

Pursuant to Article (71) of the Companies Law, no director may have a direct or indirect interest in the works and contracts executed for the benefit of the Company unless authorized by the Ordinary General Assembly. As some directors have a direct or indirect interest as employees of the Saudi Investment Bank, the approval of the General Assembly on such transactions is required. The Company has obtained the approval of the General Assembly for all such agreements in accordance with the requirements of Article (71) of the Companies Law, as described in Section (12.5.10) "**Agreements with Related Parties**".

The Company's current transactions and agreements with the related parties are conducted on commercial basis. In the event that transactions and agreements with related parties are not conducted in the future on commercial basis, or if they are not renewed, this will adversely affect the Company's operations and results.

2.1.9 Risks related to the Company's Revenue Concentration

The Company's results are based on the income from financing products. As of 30/06/2019G, the net value of the Company's financing portfolio (total debtors under Murabaha contracts, Ijara and Ijara mawsofa fi athemmah calculated at the net value of each contract) was SAR 3,083.2 million. The Company's customers are divided into two main segments corporate customers and retail customers. Corporate customers represent the largest segment as the total value of the net financing portfolio of these customers as of 30/06/2019G was SAR 2,120.2 million, which accounts for about 69% of the Company's total net financing portfolio. The retail segment consists of individual customers. The total value of the net financing portfolio of these customers was SAR 963.0 million, which accounts for about 31% of the Company's total net financing portfolio. The Ijara product accounts for the largest portion of the Company's products, representing about 95% of the Company's total net products. With regard to the volume of financing, about 50% of the Company's total net portfolio consists of financing loans amounting to or less than ten million (10,000,000) Saudi riyals. About 22% of the total net portfolio consists of financing loans ranging from ten million and one (10,000,001) to twenty-five million (25,000,000) Saudi riyals. About 16% of the total net portfolio consists of financing loans ranging between twenty-five million and one (25,000,001) and fifty million (50,000,000) Saudi riyals. Of the total net portfolio, 11% consists of financing loans ranging from fifty million and one (50,000,001) and one hundred million (100,000,000) Saudi riyals. The table below shows information about the Company's financing portfolio.

Table (8): The Company's net financing portfolio as of 30/06/2019G

As of 30/06/2019G	Amount (SAR '000)	Approximate percentage of the total
Corporate	2,120,179	69%
Retail	963,010	31%
Grand total	**3,083,189**	**100%**
Products of the Company		
Ijara	2,035,565	96%
Murabaha	84,614	4%
Corporate grand total	**2,120,179**	**100%**
Retail products		
Ijara	897,927	93%
Murabaha	1,210	0%
Ijara mawsofa fi athemmah	63,873	7%
Retail grand total	**963,010**	**100%**
Net portfolio products		
Ijara	2,933,492	95%
Murabaha	85,824	3%
Ijara mawsofa fi athemmah	63,873	2%

As of 30/06/2019G	Amount (SAR '000)	Approximate percentage of the total
Grand total	**3,083,189**	**100%**
Volume of risk by customer		
Less than SAR 10 million	1,537,667	50%
Over SAR 10 million to SAR 25 million	689,117	22%
Over SAR 25 million to SAR 50 million	508,036	16%
Over SAR 50 million to SAR 100 million	348,369	11%
Grand total	**3,083,189**	**100%**

Source: The Company.

As of 31/12/2018G, the net value of the Company's financing portfolio (total debtors under Murabaha contracts, Ijara and Ijara mawsofa fi athema calculated at the net value of each contract) was SAR 3,090.7 million. The Company's customers are divided into two main segments Corporate and retail. Corporate customers represent the largest segment as the total value of the net financing portfolio of these customers as of 31/12/2018G was SAR 2,105.3 million, which accounted for about 68% of the Company's total net financing portfolio. The other segment (retail) consists of individual customers. The total value of the net financing portfolio of these customers was SAR 985 million, which accounts for about 32% of the Company's total net financing portfolio. The Ijara product accounts for the largest proportion of the Company's products, representing about 95% of the Company's total net products. With regard to the volume of financing, about 50% of the Company's total net portfolio consists of financing loans amounting to or less than ten million (10,000,000) Saudi riyals. About 22% of the total net portfolio consists of financing loans ranging from ten million and one (10,000,001) to twenty-five million (25,000,000) Saudi riyals. About 16% of the total net portfolio consists of financing loans ranging between twenty-five million and one (25,000,001) and fifty million (50,000,000) Saudi riyals. Of the total net portfolio, 11% consists of financing loans ranging from fifty million and one (50,000,001) and one hundred million (100,000,000) Saudi riyals. The table below shows information about the Company's financing portfolio.

Consequently, the Company relies heavily on its Ijara financing products to corporate customers and to a lesser extent, individuals. Therefore, the Company's continued realization of income ratios similar to the present ratios may be affected upon the occurrence of any negative factors related to that product and the said segments. The finance cost and the profit margin in the Ijara and Ijara mawsofa fi athemmah for the individuals are linked to SIBOR. In the event that SIBOR increased, this will lead to an increase in the financing cost and the inability for the company to provide appropriate financing alternatives or pass the effects of the increase to its customers through its financing products, which may negatively and fundamentally affect the company's business, the results of its operations, its financial status and future expectations. Also, the risks increase in transactions related to Ijara contracts in which the company were buying the property from the client and then leasing it back to the client (contracts which happened prior obtaining a license to practice real estate financing activities from SAMA) Which represents approximately (4.5%) of the Company's total net financing portfolio as of 06/30/2019G). The court may explain, the transfer of the ownership to the company through buying the property then leasing it back and gifting the property at the end of the contract to the client, as a circumvent of an interest-based loan and not for the purpose of financing the customer to buy the property.

Factors such as increasing interest rates, which may result in higher financing costs, lower purchasing power of individuals, competition from more capable entities with larger market share or a change in regulatory environment, would have a material adverse impact on the profitability of the Ijara financing products. This would have a material adverse impact on the Company's business, results of operations, financial position and prospects.

2.1.10 Risks Related to the Company's Customer Concentration

Revenue from certain key customers represents a relatively large portion of the Company's revenues. As at 30/06/2019G, the top ten (10) customers account for of SAR 664.7 million, which represents about (22%) of the Company's total portfolio after deduction of unearned revenue. Fifty (50) customers account for SAR 1,641.1 million, which represents about (53%) of the Company's total portfolio after deduction of unearned revenue (see Table ([186]) "**Summary of Real Estate Financing Agreements with Company's Key Customers as of 31/07/2019G**").

As at 31/12/2018G, the top ten (10) customers accounted for of SAR 721.8 million, which represents about (23%) of the Company's total portfolio after deduction of unearned revenue. Fifty (50) customers account for

SAR 1,706.6 million, which represents about (54%) of the Company's total portfolio after deduction of unearned revenue.

It should be noted that the Company has two defaulting customers among its key customers with a total of SAR 58.1 million and SAR 26.6 million respectively as at 31/07/2019G (see Table ([202]) "**Information on Defaulting Customers as of 31/07/2019G**"). This is an example of the possibility that the Company's key customers may be affected by any negative operational or financial factors that have affected their ability to continue performing their contracts with the Company; the Company's ability to continue its contractual relationship with them may be affected, which would have a material adverse impact on the Company's business, results of operations, financial situation and prospects.

2.1.11 Risks Related to Zakat Disputes

The Company was a party to Zakat disputes related to the Company's objection to additional Zakat amounts imposed by the General Authority for Zakat and Income (GAZT) for the period from 2007G to 2017G. As of the date of this Prospectus, a settlement agreement was signed on 03/03/2019G for the period from 2013G to 2018G for an amount of SAR 43,189,966. The decision of the Zakat and Tax Dispute Settlement Committee at GAZT was approved on 11/04/2019G to settle Zakat disputes from 2007G to 2012G for an amount of SAR 12,601,875, including income tax and a fine of SAR 20,000 for failure to submit a tax return. As at 31/12/2018G, the Company had a Zakat provisions of SAR 36.1 million, which decreased to SAR 32.2 million as at 30/06/2019G (these provisions do not include tax provisions of SAR 0.6 million as at 31/12/2018G and provisions of SAR 0.8 million as at 30/06/2019G).

The Company also does not expect any additional claims not included in the settlement or other zakat claims. The effect of the full settlement is reflected in the Company's financial statements for the six months ended 30/06/2019G. The date of the last payment relating to the settlement of Zakat and income tax for the period 2007G to 2018G will fall on 01/12/2023G. The Company will bear all amounts related to settlements and any additional amounts that GAZT may claim for the period from 2007G to 2018G (for more information, see Section (12.9.1) "Zakat Disputes".)

GAZT has issued rules for calculating Zakat related to financing activities, which apply to banks and finance companies licensed by SAMA. These rules were published on 08/07/1440H (corresponding to 15/03/2019G) in Um Al-Qura, Issue No. 4771. These rules will be followed in calculating Zakat as of 2019G and the subsequent years. Based on such rules, Zakat pool will have a minimum and a maximum amount for the companies incurring profit, which will be four (4) times the net income before zakat at the end of the zakat year as a minimum amount and eight (8) times the net income before zakat at the end of the zakat year as a maximum amount. Due to the recent rules for calculating the Zakat of financing activities issued by the GAZT, the company did not use these rules as of the date of this prospectus to prepare the Zakat declaration for any financial year.

It should be noted that, in the event of disputes with GAZT in the future, the Company may be subject to attachment and compulsory collection procedures imposed by GAZT. The Company may be refused government tenders, recruitment of any labor, or issuance and renewal of work permits that enable it to conduct its activities if sanctions are imposed for any reason, which would result in a material and negative impact on the Company's business, results of operations, financial position and prospects.

2.1.12 Risks Related to VAT Application

The Value Added Tax Law came into effect on 01/01/2018G. VAT is a new tax added to the system of taxes and other fees on specific sectors in the Kingdom. In event of future increases in the added value percentage, if the State changes its mechanism for incurring the citizen's first housing VAT or cancels such mechanism or if new taxes are imposed on the sector, the Company may not be able to adapt or commit thereto. This will result in the Company being charged with VAT uncollected from the customer, which would have an adverse impact on the Company's business, results of operations, financial position and future prospects.

The General Authority for Zakat and Tax (GAZT) carried out an inspection on the application of VAT for the period from the beginning of January 2018G until the end of January 2019G.As of the date of this prospectus, the Company has received notices related to VAT claims and fines totaling SAR 19.9 million, for further information, please refer to Section (12-9-1) Zakat and Tax Disputes. It is possible in the future for GAZT to send further notices for other periods or other examination periods, which may result in the company incurring additional costs which would adversely affect the company's operation and financial results. The relatively recent application of VAT lacks clarity in some cases and the Company has to interpret the application method in certain cases. However, GAZT may not agree with the Company's conclusions, which may result from differences in their interpretations. If this happens, the Company may incur additional costs, which will adversely affect the Company's business and financial results.

2.1.13 Risks Related to Competition

The real estate finance market has significant expansion opportunities and a stimulating environment, which may attract more domestic and foreign real estate financers to work in this sector. In addition, companies operating in the same field as the Company may carry out acquisitions and mergers, increasing their market shares and intensifying competition among companies operating in the real estate finance market.

Occurrence of any of the above means that the Company may be in competition with other financial institutions that have more resources at their disposal or have other advantages that are difficult or impossible for the Company to have. An institution with larger financial resources or client network may be able to outperform the Company in advertising expenses, attract members of the Company's core staff by offering greater financial and incentive rewards than the Company can offer and allocate more resources to develop their products and expand their scope of work. For example, other financers are competing through commission rates and profits, which may result in adverse events, most notably the Company's loss of customers or market segment, reducing profit margins or increasing costs or forcing the Company to obtain additional financing or capital that may not be available at attractive prices or at all.

Competition may impede the Company's ability to increase or maintain its profit margins, as other companies seek to earn business through lower prices and profit structures. As such, increasing competition in the Company's core business areas will limit its ability to implement its growth strategy, increase its customer segments and expand its operations. The Company's profit margins and asset growth rates may decrease, which will have a material adverse effect on the Company's business, financial position, results of operations and prospects.

2.1.14 Risks Related to Individual Customers and SMEs

Based on its strategy, the Company is expanding the scope of its existing and target customers and targeting individual customers (representing 31% of the net financing portfolio as of 30/06/2019G and representing 32% of the net financing portfolio as of 31/12/2018G), self-employed persons, and SMEs. In addition, the Company provides its finance products to individual beneficiaries of the Real Estate Development Fund and the programs of the Ministry of Housing. These segments may be characterized by limited terms and credit capacity. As such, dealing with these segments may increase default rates and provisions for doubtful debts, which will have an adverse effect on the Company's revenues and profits. The default rate was SAR 157.4 million representing (5%) of the total value of the finance portfolio after deduction of the unearned revenue as of 30/06/2019G and SAR 175.6 million representing (6%) of the total value of the finance portfolio after deduction of the unearned revenue as of 31/12/2018G. The Company has not written off any bad debts during the past four years. In addition, it may file lawsuits and incur costs for legal actions for the recovery of default amounts and other overdue amounts. Accordingly, the Company's strategy to expand its mentioned customer base requires regular monitoring through credit risk management. The Company's retail and corporate customers are subject to KSA's general economic situation, which may affect their ability to pay their obligations to the Company. (For more information, see Section (2.2.4) "**Risks Related to Change in Overall Economic Performance**" and Section (2.1.15) "**Risks Related to Geographical Concentration**").

An increase in the individual customer base may result in higher exposure to default risks, which may have an adverse effect on the Company's income. There is no guarantee that an increased default risk due to exposure to individual customers will result in a higher rate of return on financing for that purpose or the possibility of obtaining higher guarantee coverage to cover the amount of financing compared to the products of other finance customers.

SAMA may change the maximum loan-to-value ratio for real estate loan financing to 70% or less, which will have an adverse effect on the Company's results of operations, financial position and prospects. The current finance-to-property value rate is 90% of the first housing value, 85% of the second housing value, 95% if customer has secured the first payment from the Ministry of Housing and the advance payment does not exceed forty thousand (40,000) Saudi riyals, and 100% if the customer is buying completed housing from Ministry of Housing projects or transferring indebtedness from another financier. Real estate financing is long-term and more vulnerable to default if the value of relevant properties falls below the remaining financing amount. It is difficult to predict the results of the Company's ability to recover its dues through execution on the relevant properties. The Company' failure to do so for any reason will have an adverse effect on its business, financial position and results of operations.

In addition, the Company's real estate finance products are recognized as either a fixed or floating profit rate. Therefore, a change in global interest rates or SIBOR may have a negative effect on the Company's profit margins in respect of future financing contracts, which will have a material adverse effect on the Company's business, financial position, results of operations and prospects.

2.1.15 Risks Related to Geographic Concentration

The Company's business is concentrated in the Kingdom of Saudi Arabia, particularly in the Central, Western and Eastern Region. As of 30/06/2019G the Central Region accounted for the largest portion of the Company's financing portfolio with an estimated total amount of SAR 2,533.6 million, representing about 82% of the Company's net financing portfolio. The Western Region accounted for about 11% of the Company's net financing portfolio, at SAR 349.2 million. The Eastern Province accounted for about 7% of the Company's net financing portfolio, at SAR200.4 million. As of 31/12/2018G the Central Region accounted for the largest portion of the Company's financing portfolio with an estimated total amount of SAR 2,504.1 million, representing about 81% of the Company's net financing portfolio. The Western Region accounted for about 12% of the Company's net financing portfolio, at SAR 383.8 million. The Eastern Province accounted for about 7% of the Company's net financing portfolio, at SAR 202.8 million.

Consequently, the Company's business and revenue sources are concentrated in limited geographical areas within the Kingdom, which increases the impact of any risks that may arise in those areas. As a result, any slowdown in economic growth or deterioration in the general economic conditions, that affect areas where the Company operates, or any failure by the Company to effectively manage geographical risks, would have an adverse effect on the Company's business, financial position, results of operations and prospects.

2.1.16 Risks Related to Reputation

The Company's reputation may be adversely affected by, among other things, deterioration of its financial results, the Company or its management being subject to lawsuits, unfavorable legal proceedings that may result from non-compliance with certain legal requirements or staff misconduct that leads to a breach by the Company of the applicable statutory requirements. If the Company's reputation is adversely affected, it will have a material effect on the Company's business, financial position, results of operations and prospects.

2.1.17 Risks Related to Anti-money Laundering, Risk Management, Counter-Terrorism Policies and Procedures and Other Relevant Regulations and Instructions

The Company is subject to anti-money laundering and anti-terrorism laws and other relevant regulations and instructions applied by the competent authorities such as SAMA. These regulations include a wide range of requirements relating to developing internal systems and policies for the verification of the Company's customer, known as "KYC" procedures, as well as other anti-money laundering and anti-terrorist financing measures that require follow-up and verification of suspicious financial transactions and reporting of the same to the competent authorities. Future litigation in connection with breaches of such laws, regulations and instructions may lead to fines and other penalties. The Company was obliged by SAMA to pay a penalty on 25/10/2017G of SAR 130,000 for violation of AML/CFT requirements. Similarly, breaches or even allegations thereof may negatively impact the Company's reputation. Any of these factors, if they occur, would have a material adverse effect on the Company's business, financial position, results of operations and prospects.

Compliance, internal audit and reporting procedures in compliance with SAMA regulations and procedures, which are intensive, including regular inspections, may not be fully effective and sustainable. Compliance with these regulations, rules and regulations also depends on the Company's ability to attract and retain competent personnel to perform such work, including the control of operations. In case of actual or alleged non-compliance with these regulations and instructions, the Company may be subject to judicial or administrative investigations or proceedings that may result in penalties or criminal proceedings, including, but not limited to, claims by customers for damages or even loss of its business license. Any of these factors, if they occur, would have a material adverse effect on the Company's results, financial position and prospects.

2.1.18 Risks Related to IT Systems

The Company is developing its IT systems as the nature of its business and regulatory requirements require it to rely heavily on the optimal use of these technologies. Its internal controls relating to risk control and compliance with relevant laws and regulations, including financial matters, increase the Company's need to rely on modern information technology to conduct many of its businesses and maintain its level of activity and quality. Therefore, the Company may experience a failure in its technical system, which may occur for a number of reasons, including, but not limited to, failures of systems and equipment, natural disasters, failure of external systems, prolonged power outages, computer viruses and other external cyberattacks. This jeopardizes the Company's information, customers and the continuity of its activities during the interruption of the electronic network. The proper functioning of the Company's IT systems also depends on accurate and reliable data and other system inputs, which are subject to human errors. Any failure or delay in recording the Company's operations and transactions with the Company's customers, including in connection with the receipt and delivery of dues, payments and other contractual obligations, may expose the Company to claims for losses in addition to regulatory fines and penalties. If any of these events occur and the Company's electronic systems are affected, this will cause an adverse effect on the Company's business, financial position, results of operations and prospects.

The Company also relies on some third parties for installation services, programming and technical support. If the Company terminates its contractual relationship with those parties and fails to find appropriate alternatives to provide it with these services without hindrance, this will disrupt the Company's business. This failure will have a material adverse effect on the Company's business, financial position, results of operations and prospects.

The Company's business may be subject to major disruption in the event that its hardware and software is improperly designed and installed in a way contrary to the objectives and operations for which they were used or as a result of the failure to properly manage the technical functions of the software developed, which would have a material adverse effect on the Company's business, results of operations, financial position and prospects.

2.1.19 Risks Related to Litigation

As of 31/07/2019G, there are sixteen (16) outstanding cases filed by the Company before the executive courts in the Kingdom against its customers to claim rents and installments due. The amount of these claims is SAR 218,168,801. There are eight (8) claims filed against the Company. The amount of these claims is SAR 4,491,588 (for more details, see Section (12.9) "Claims and Litigation"). As the Company has transactions with many parties, it is exposed to litigation by various parties, including finance customers, contracting parties, regulatory bodies, employees, operators and owners of properties utilized by the Company.

Judgments and decisions issued in these cases, if they are not in favor of the Company, will cause significant costs to the Company, which would have a material adverse effect on the Company's business, operations, financial situation and prospects (see Section (12.9.2) «Litigation").

2.1.20 Risks Related to Employee Misconduct or Errors

The Company is exposed to operational risks that may result in material losses including, but not limited to, employee errors by not documenting transactions properly and in accordance with the Company's approved forms or any employee act, (internal or external) fraud or abuse of authority or powers. This may include non-compliance by the Company's employees with its compliance procedures or risk limits, or non-compliance with regulatory requirements and business practices. If any of these events occur, it will have a material adverse effect on the Company's business, financial position, results of operations and prospects.

2.1.21 Risks Related to Inadequacy of Insurance Coverage

The Company secures insurance related to risks that the Company may face in addition to that which might be legally required to cover risks related to financing operations. The insurance may not be sufficient to cover all cases or all the risks to which the Company may be exposed. There may be events in the future where the Company's insurance does not cover the potential losses, or it may not be insured against them at all. The Company's insurance policies also include exceptions or limits for coverage that exclude certain types of loss, damage and liability from the insurance coverage (for more details, see Section (12.6) "Insurance Policies"). In these cases, the Company would incur losses that could have an adverse effect on its business and results of operations. In addition, if the insurance policies are not renewed within the current scope of coverage and under commercially acceptable terms, or if they are not renewed at all, or if there is no insurance or insufficient insurance for the different fields of the Company's business, this would have an adverse effect on the Company's business, financial position, results of operations and prospects.

2.1.22 Risks Related to Lack of Experience in Managing a Listed Joint Stock Company

The Company has not previously listed its shares and, since its inception, has been a private company. Therefore, the members of the Company's senior management may not have practical experience in the management of a listed company and compliance with the requirements imposed on listed companies, especially in relation to the CML Law and its Implementing Regulations and the Listing Rules. Any failure to comply with the applicable obligations under the laws, regulations and instructions relating to listed companies, including, but not limited to, the Rules on the Offer of Securities and Continuing Obligations, Listing Rules and Corporate Governance Regulations may expose the Company to fines, suspension or delisting of its shares. This would have an adverse effect on the Company's business, financial position, results of operations and prospects.

2.1.23 Risks Related to Transactions and Contracts of Sale of the Company's Financing Portfolios

(1) In accordance with the Company's contracts to sell its portfolios, the Company is required to transfer ownership of the real estate covered by the financing with its customers to the Buyer, the Saudi Investment Bank or the Saudi Real Estate Refinance Company (two portfolios have been sold to the Saudi Real Estate Refinance Company). All of these are contracts without recourse. Fifty-seven (57) deeds have not been transferred, with a value of SAR (34,793,091) as of 30/06/2019G. Since the Company has made to its customers, in accordance with its Ijara contracts, the promise of a grant to transfer the ownership of such properties to its customers, after the fulfilment and implementation of the terms of the contracts, it takes the risk that the Bank or the Saudi Real Estate Refinance Company will fail to do so or even delay in doing so, which would put the Company at risk of a conflict with its customers, as they are not parties to the Company's contracts with the Bank or the Saudi Real Estate Refinance Company. Also, during the period in which the customer pays the finance installments and the ownership of the property is registered in the name of the Bank or the Saudi Real Estate Refinance Company, in the absence of the necessary preventive and precautionary measures, such properties may be subject to claims by the creditors and shareholders of the Bank or the Saudi Real Estate Refinance Company (for more details, see Section (12.5.2) "Financing Portfolio Sale Agreements").

(2) Under the contracts concluded with the Saudi Real Estate Refinance Company, the Company issued a promissory note to the Saudi Real Estate Refinance Company in the amount of SAR 104,650,708 and SAR 164,303,889, which is the total sale value of the respective financing portfolios, to ensure that the Company transfers all properties to the Saudi Real Estate Refinance Company. In this respect, the Company's failure to transfer ownership of any of the properties results in the obligation of the Company to fully fulfill the value of the note.

(3) Under contracts entered into by the Company with the buyers of its financing portfolios, the Company is appointed as an agent for buyers in collecting rents in accordance with the Ijara contracts with the Company's customers, in consideration for fees received by the Company. In this regard, appointing the Company as an agent for collecting rents, dealing with customers and prosecuting them in the event of non-compliance with their contracts with the Company includes a power that may be used by the Company in a manner inconsistent with the principal (the Bank or the Saudi Real Estate Refinance Company), or the Company may act in accordance with instructions inconsistent with the relevant provisions of the contracts, which may expose the Company to legal dispute with the principal or its customers. Due to the nature of these contracts relating to the sale of real estate and the obligations arising towards the Company in respect of finance installments, in the event of a dispute between the parties to the contract or the customers of the Company, a judgment may be rendered against the Company. Accordingly, the emergence of any risks would have a material adverse impact on the Company's business, results of operations, financial position and prospects.

2.1.24 Risks Related to Customers' Payment Default

The Company's revenues depend on customers' solvency, the continued stability of their credit position and the possible guarantees to collect its rights. The volume of default after deduction of the unearned revenue for the period ended 30/06/2019G amounted to SAR 157.4 million representing (5%) of the value of the total financing portfolio after deduction of the unearned revenue. The volume of default after deduction of the unearned revenue for the period ended 31/12/2018G amounted to SAR 175.6 million representing (6%) of the value of the total financing portfolio after deduction of the unearned revenue Payment default or bankruptcy may affect customers' ability to fulfill their obligations towards the Company. In addition, the rights stipulated in financing contracts with customers and the collection of these rights by the Company may require considerable cost and time. Therefore, the failure of the Company's customers to fulfill their obligations or delay in payment for long periods for any reason and the Company having to exercise its rights in the ways stipulated in the financing contracts will have a material adverse impact on the Company's business, results of operations, financial position and prospects.

It should be noted that as of 30/06/2019G, there were (30) non-performing contracts, including three customers among the top 50 customers. As of 30/06/2019G, the default of these customers amounted to SAR 103.8 million, representing (3%) of the Company's total portfolio after deduction of the unearned revenue. As of 31/12/2018G, there were (20) non-performing contracts, including two customers among the top 50 customers. As of 31/12/2018G, the default of these customers amounted to SAR 144.2 million, representing (5%) of the Company's total portfolio after deduction of unearned revenue. An increase in default rate would have a material adverse impact on the Company's business, results, financial position and prospects (for more information, see Section (12.9.3) "**Disputes Related to Default of Customers and Implementation Issues**", Table (118) "**Aged Receivables as of 31 December 2016G, 2017G and 2018G**" and Table (163) "**Aged Receivables as of 31 December 2018G and 30 June 2019G**".)

2.1.25 Risks Related to Construction and Lower Return on Investment

Real estate development, whether commercial or residential, and real estate investment are common goals for many of the Company's customers and therefore the success of the Company depends to some extent on the construction and contracting sector in general. Accordingly, the Company's business results are subject to risks related to this sector including, but not limited to, the availability of building materials and fluctuations in their costs, particularly in relation to basic materials such as cement and iron. Some of materials are locally supplied, and the remaining portion is imported from abroad. Therefore, any shortage in the availability of materials needed to complete the construction operations of the Company's customers may result in an increase in their prices, which may cause the Company's customers to incur construction costs significantly exceeding their current estimated costs as a result of the increased cost of materials, labor and other costs, in addition to other unexpected costs, including any fees that may be imposed by the State on the import of building materials or the higher price thereof due to their unavailability in the market. This makes the implementation and/or operation of projects economically unfeasible if the Company's customers cannot increase their prices sufficiently to offset the increase in costs.

In addition, the real estate projects that the Company's customers might enter into where the property is financed by the Company may require government approvals and licenses. Due to any future changes in laws and policies, the customers' ability to obtain the necessary government licenses to complete their projects may be affected or may cause an increase in the financial burden on customers as a result of delays in obtaining these permits, which may result in customers abandoning these projects. The success of the Company's customers may depend largely on the availability of the necessary labor at reasonable prices to complete implementation according to the set schedules. Therefore, the inability of the Company's customers to provide the necessary labor for any reason will lead to delays in the implementation of their projects on time and may result in an increase of costs.

The occurrence of any of the above events may have a financial impact on the Company's customers, which may reduce the return on real estate investments for which they have obtained financing from the Company or may cause them to incur losses, which may affect their ability to pay their dues to the Company or make them reluctant to obtain other financing from the Company. Accordingly, this would have a material adverse impact on the Company's business, results of operations, financial position and prospects.

2.1.26 Risks Related to Shareholders and Board Members Engaging in Business Competing with the Company's Business

Some of the Company's Board of Directors engage in businesses that are considered similar or competitive businesses, whether directly or indirectly (see Section (12.5.10) "**Agreements with Related Parties**" for more details), which could lead to conflicts of interest between the business of the shareholder or director and the Company's business. Under Article (72) of the Companies Law, no director may, without prior authorization from the Ordinary General Assembly, participate in any activity that competes with the Company's activities; otherwise, the Company shall have the right to claim appropriate damages from said director before the competent judicial authority. Approval was given by the Ordinary General Assembly on 18/12/2018G. The directors can affect the Company's decisions. Sometimes their interests may conflict with the interests of other shareholders of the

Company when making decisions for the Company. Moreover, as related parties, they are able to access the Company's internal information, which they might use for their personal interests or in a manner conflicting with the Company's interests and objectives. If directors whose interests are in conflict with the Company's negatively influence the Company's decisions or use the Company's information in a manner that is harmful to the Company's interests, this would have a material adverse impact on the Company's business, results of operations, financial operations and prospects (for more details, see Section (11) "**Declarations**", Section (5.5) "**Declarations of Directors, Senior Executives and Board Secretary**" and Section (12.5.10) "**Agreements with Related Parties**").

2.1.27 Risks Related to Default of Investment Companies

The Company entered into several real estate investment partnerships prior to the issuance of the Law on Supervision of Finance Companies and its Implementing Regulations dated 10/4/1434H, which stipulate that any real estate financing company not have an investment activity in the property. Accordingly, the Company has stopped entering into new real estate investments. However, as at 31/07/2019G, the Company had an investment project in partnership with Dar Wa Emaar Company for an amount of SAR 5,050,312, representing 90% of the total project value. The Company is trying to exit such project. For more information, see Section (12.5.6) "**Investment Partnership Agreements**". In this regard, partnership contracts include clauses that require registration of developed real estate ownership under the name of partners (such as the Company's CEO, the Company's Directors or an employee of the Company) as per such contracts. This would trigger some risks related to the financial default of the other party and claims of its creditors, which would affect the Company's ability to separate its ownership from that of the partner in default or in the event of the death of individual partners, particularly if there is a dispute between his or her heirs. In the event of a dispute between partners, the contract clauses related to disputes are not clear, which would prolong the dispute.

SAMA would set a period for exiting such investments, which could cause the Company to incur losses resulting from a quick exist or supporting its partners to avoid the joint venture's loss before exiting it. If this happens, it would have a material adverse impact on the Company's business, results of operations, financial position and prospects.

2.1.28 Risks Related to Human Resources, Reliance on Key Personnel and Ability to Attract Qualified Individuals

In order for the Company to maintain its competitive position and market share, it must employ competent qualified personnel and cadres that are highly skilled and have diverse expertise and leadership capabilities in the field of real estate finance and important supporting services. The Company's failure to employ qualified cadres, maintain key employees, plan to employ the Company's future employees, develop plans for competitive remunerations and allowances that ensure retention of current employees or invest in developing employees' key talents or if the Company were to unexpectedly lose senior management personnel or fail to employ new highly-efficient employees in the Company's senior management, this would adversely affect the good implementation and management of the Company's strategic plans. Under some regulations and instructions issued by SAMA, the Company is required to employ competent qualified personnel and cadres to undertake some organizational tasks and obtain the non-objection of SAMA.

In accordance with the Anti-money Laundering and Terrorist Financing Regulations for finance companies, the Company is to provide the Company's Unit for Combating Money Laundering and Terrorism Finance with suitable technological and human capabilities. During an inspection visit, SAMA made an observation to the Company regarding the human resources in such Unit, noting that there are only two employees in the Department of Compliance and Combating Money Laundering and Terrorism Finance, including the Compliance Manager, which is a low and inadequate number compared to the Company's capital, and that some of the employees do not have sufficient experience in this field. Based on the observation, the Company appointed one more employee, and no violations or fines have been imposed on the Company.

The Company competes with other companies in real estate financing and other sectors in connection with employing qualified, skilled and experienced personnel. The Company may not attract suitable competencies or retain key employees, which would have an adverse impact on the Company's business, results of operations, financial position and prospects.

2.1.29 Risk Related to Non-Compliance with Labor Regulations Concerning Saudization

The competent authorities work to find job opportunities for citizens and encourage and oblige companies to employ Saudi citizens through a large number of programs, laws, regulations and instructions, including obligations imposed on operating companies in relation to maintaining a specific percentage of Saudi labor force. On 30/06/2019G, one hundred thirteen (113) employees out of one hundred thirty (130) employees were Saudi, placing the Company within the platinum scope under the medium companies category (B) and compliant with Saudization requirements.

However, the Company's failure to comply with Saudization policies and rates and relevant government instructions will lead to the Company's exposure to penalties imposed by government agencies, such as suspending labor visa requests, transferring sponsorship of non-Saudi employees and other penalties, which would have an adverse impact on the Company's ability to carry out its business and operations and its ability to fulfill its obligations, profitability, financial performance and financial results.

2.1.30 Risks Related to Non-Compliance with Laws and Regulations

The Company is subject to several laws and regulations, including, but not limited to, the laws and regulations of the Ministry of Commerce and Investment, the Ministry of Labor and the Ministry of Interior (foreign customers must obtain the approval of the Ministry of Interior before obtaining real estate financing) and those related to its work locations issued by municipalities, secretariats and Civil Defense, as well as regulations and laws issued by SAMA, the CMA and Tadawul after listing and other relevant government agencies in the Kingdom. As mentioned before regarding the risks related to lack of experience managing a listed company, this includes ensuring non-breach of regulations and instructions issued by the CMA, including, but not limited to, compliance with the minimum number of independent members on the Board and its committees, such as the Audit Committee and the Remuneration and Nomination Committee, as well as the composition thereof in terms of executive and non-executive members. If the laws are violated, the Company may be exposed to penalties. In such case, this will adversely affect the Company's business, results of operations, financial position and prospects.

2.1.31 Risks Related to Risk Management Systems, Policies and Procedures

The Company develops risk management policies according to the approval of the Board of Directors; however, the Company's policies, procedures and internal controls are not effective in full in all cases and circumstances, and such policies might not be implemented fully or correctly. The Company may not also be able to avoid potential risks in the future. This would cause the Company to have insufficient information on which to base its evaluation of its exposure to risks. As a result, the increased risk level to which the Company is exposed would have a material adverse impact on the Company's business, results of operations, financial position and prospects.

2.1.32 Risks Related to Protection of the Company's Trade Name and Intellectual Property Rights

The Company owns a trademark under Registration Certificate No. 1439023563, which is valid until 18/10/1449H (corresponding to 14/03/2028G). Amlak International for Real Estate Development owns a trademark under Registration Certificate No. 1436017665, which is valid until 28/8/1446H (corresponding to 27/2/2025G). The trademark derives its value from its reach and customers' knowledge and perception thereof. Consequently, the success of the Company depends largely on its ability to maintain and boost the strength and value of its trademark, which in turn depends on many factors, such as the Company's reputation, the financing products provided by the Company and the perception of its trademark.

Despite the use of trademarks in its marketing efforts, the Company may not succeed in enhancing its trademark and its contribution to increased sales and profits. The value of a trademark may be adversely affected by independent events, especially if these events are met with general negative interaction. Such events may occur as a result of internal factors, such as the works that the employees of the Company carry out or abstain from carrying out, such as responding to customer complaints and the like. The same applies to external factors such as litigation, lawsuits, embezzlement by third parties, infringement of or damage to the intellectual property rights of the Company, complaints, investigations or other statutory actions and illegal activities targeting the Company. In addition, negative publicity on the Company in particular or the real estate financing sector in general or any resulting media coverage can damage the Company's reputation and trademark and cause a loss of customers.

In addition, the Company may be exposed at any time to negative comments on social media, including blogs, social networks and other types of Internet communication, which may impair the reputation of the Company and its business, and may cause direct damage to the Company with no opportunity to explain or address the matter. This may damage the reputation of the Company and expose it to material damage.

The inability of the Company to properly manage and address these factors and events or its inability to prevent them would have a material adverse impact on its trademark, reducing the number of new customers or the continuation of existing customers and consequently a decline in revenues. This would, in turn, have a material adverse impact on the Company's business, financial position, results of operations and prospects.

2.1.33 Risks Related to Non-Compliance with SAMA Regulations and Circulars

The Company is licensed by SAMA and is, therefore, required to comply with the regulations and circulars issued thereby. In this regard, the Company has faced cases of non-compliance cases in the past, as financial fines of one hundred thirty thousand (130,000) Saudi riyals were imposed by SAMA on the Company on 25/10/2017G due to non-compliance with anti-money laundering and terrorism finance requirements. Furthermore, a fine of ten thousand (10,000) Saudi riyals may be imposed by SAMA for each day that passes without the adoption of corrective procedures. Moreover, financial fines of twenty five thousand (25,000) Saudi riyals were imposed on 09/08/2018G because the Company did not update the credit information of one of its customers at the Saudi Credit Bureau (SIMAH) according to the provisions of Paragraph (2) of Article (57) of the Implementing Regulations of the Law on Supervision of Finance Companies and the provisions of Paragraph (4) of Article (40) of the Implementing Regulations of the Credit Information Law. SAMA has provided the Company with some observations related to the Company's new automatic system. The Company is addressing such observations according to the schedule agreed upon with SAMA and shall correct such observations by the end of the third quarter of 2019G. The occurrence of such risks in relation to non-compliance with laws and regulations remains a possibility (see Section (12.8) "**SAMA Remarks and Breaches**" for more information).

In addition, the Company is bound to operate within the scope of activities licensed by SAMA in relation to real estate finance only; however, the Company engages in some businesses related to real estate investment or finance in general in which it is not specifically licensed to engage. One example is the real estate development partnership set out in Section (2.1.27) "**Risks Related to Default of Investment Companies**", which the Company is currently exiting on the basis of a no objection issued by SAMA. This is in addition to the business that may be classified as finance for the purposes of meeting cash needs such as customers' needs for working capital or transactions that are classified as mere loans not related to real estate, such those involving the purchase of a real estate and then the lease thereof by the seller (called a rent-to-own product for companies) which are concluded based on no-objection letters from SAMA, without listing them in the activities mentioned in the license. Subsequently, if SAMA or other competent authorities issue a decision to change their stance on the non-objection or do not renew it (the current non-objection expires on 10/7/1441H), the Company would not be able to provide such loans, which would have a material adverse impact on the Company's results of operations. In this regard, until 30/06/2019G, the Company has a finance portfolio of SAR 373 million, representing twelve percent (12%) of the Company's net finance portfolio, to provide cash for rent-to-own product for companies.

Accordingly, the Company's failure to comply with applicable laws, regulations and instructions may result in it bearing penal financial costs, penalties and fines or suspending the Company's business until necessary licenses and approvals are obtained or a specific violation is corrected. This would have a material adverse impact on the Company's business, results of operations, financial position and prospects.

2.1.34 Risks Related to Registration of Real Estate Deeds

The ownership of all real estate financed by the Company (in the form of Ijara contracts) is registered under Amlak International for Real Estate Development (hereinafter referred to as "**Amlak for Development**" or the "**Subsidiary**"). Amlak for Development was wholly owned by two directors until 15/4/2018G when all shares were transferred to the Company, and Amlak for Development became wholly owned by the Company. The main reason behind this action was to address some challenges facing the Company due to regulatory requirements that the notary public require the Company to obtain a non-objection from SAGIA when registering any ownership of a real estate financed under the Company's name, in accordance with the requirements of SAGIA that licensed the Company. This has been a large obstacle to its operations, including registering a large number of ownerships of the real estate financed thereby. Through communicating with SAMA and SAGIA, SAGIA issued a circular to the notary public excluding real estate registration under the name of companies for the purpose of financing from the requirement of obtaining a non-objection.

In this regard, any difference in the registration of the ownership of real estate financed during the period when Amlak for Development was owned by the two directors and parties to finance contracts may expose the transaction to annulment risks if the contract clauses, in which the Company declared and represented that it owned the real estate, are rendered invalid or if the transfer of real estate ownership at the contracting level is rendered doubtful. However, the Company took precautions to protect its rights during this period and issued declarations confirming that despite registering the shares of the Subsidiary under the names of the two directors, the Company was the real owner of such shares. The two directors issued similar declarations confirming that the Company is the real owner of the shares.

In relation to registering real estate ownership, the Company faced another challenge related to using real estate registration under the name of Amlak International for Real Estate Development as a guarantee for the fulfillment by customers financed by the Company of due finance amounts. On 26/8/1438H, SAMA issued a circular to all banks and finance companies to register real estate mortgages according to the contract type and rectify the status of real estate currently registered under the name of the finance company within a period not exceeding 3 years and inform customers thereof. Accordingly, the Company is obligated to transfer real estate ownership to the names of its customers and impose mortgage thereon. There are currently two (2) remaining title deeds at a value of SAR 2,799,265. In the event of default, this could result in fines imposed by SAMA up to two hundred fifty thousand (250,000) Saudi riyals, if SAMA considers it a violation related to professional breaches or exposing its shareholders or creditors to risk. If the violation continues, SAMA may impose a financial fine not exceeding ten thousand (10,000) Saudi riyals for each day.

The Company also faces risks related to the potential cancellation of some real estate title deeds financed thereby by the competent agencies in case of unlawful issuance of such deeds or if they have a regulatory default as defined by such agencies.

Accordingly, if any risks emerge as a result of the above, this would have a material adverse impact on the Company's business, results of operations, financial position and prospects.

2.1.35 Risks Related to Failure to Renew the Licenses of the Company and its Subsidiary

The applicable laws and regulations require necessary licenses and approvals by the Company and it's Subsidiary to practice its activity and provide its finance products. These licenses include, but are not limited to, registration certificates of companies, names, trademarks, Saudization certificate, Zakat and Income certificate, value-added certificate, SAMA's approvals on providing finance products and other necessary permits to undertake its business properly. The majority of the Company's licenses are subject to conditions under which such licenses are suspended or terminated if the Company fails to comply with the conditions. In addition, the competent authority may not renew necessary licenses, and in case of renewal, the competent authority may impose additional conditions that may adversely impact the Company's business. The Company has not obtained a civil defense license for the Company's headquarters from the owner of the leased building, exposing it to violations by the General Directorate of Civil Defense. This would result in costs that negatively affect the Company's business, projections, results of operations, financial position and prospects.

Amlak International for Real Estate Development (the Subsidiary established for keeping title deeds and wholly owned by the Company) was not licensed by SAGIA until 05/03/1440H (corresponding to 13/11/2018G), which is required by applicable laws due to foreign ownership of one of the Company's shareholders, the Saudi Investment Bank. Before this date, the Company's practices were in conflict with the Foreign Investment Law and its Implementing Regulations, and failure of Amlak for Development to obtain a foreign investment license before such date exposes it to the penalties set forth in the Foreign Investment Law and its Implementing Regulations, as well as other relevant laws and regulations applicable in such period.

If the Company or its Subsidiary fails to renew the license or obtain any of the licenses necessary for its business, if any of its licenses is suspended or terminated, if any of these licenses are renewed under unfavorable conditions for the Company, or if the Company is unable to obtain additional licenses that may be required in the future, this would result in the Company's operations being interrupted and the Company incurring costs, which would have a material adverse impact on the Company's business, projections, results of operations, financial position and prospects (see Section (12.4) "**Required Licenses and Approvals**" for more information).

2.1.36 Risks Related to Violations of SAGIA Regulations and Circulars, and the Regulation on Ownership and Investment in Real Estate by Non–Saudis

The Company is licensed by SAGIA and is, therefore, required to comply with the regulations and circulars issued thereby. It is also required to work within the scope of activities licensed by SAGIA.

The Company is one of the companies excluded from the notaries public's condition to obtain prior written approval of SAGIA upon completing procedures of real estate sale and purchase by SAMA under Letter No. (381000005606) and SAGIA Governor Letter No. (58/1438). Based on Council of Ministers Resolution No. (494) dated 14/09/1439H, all banks and real estate finance companies licensed by SAMA are excluded from Article 5 of the Regulation of Ownership and Investment in Real Estate by Non-Saudis, as they are excluded from the intended meaning of "Non-Saudi".

Amlak International for Real Estate Development (the Subsidiary established for keeping title deeds and wholly owned by the Company) was not licensed by SAGIA until 05/03/1440H (corresponding to 13/11/2018G) when it obtained a real estate investment license from SAGIA for the purpose of registering and keeping real estate financing instruments as required by the applicable laws, due to the foreign ownership of the Company.

Although the ownership of real estate financed by the Company is registered under the name of the Subsidiary, the Company did not disclose such assets to SAGIA prior to obtaining the real estate investment license. It is not clear if SAGIA has decided on the status of Amlak for Development's actions that violate the license prior to the issuance thereof. SAGIA has issued the license and approved amendment of the license. However, if SAGIA decides that, before issuing the license, the actions of Amlak for Development require penalty, it may be exposed to the penalties set out in the Foreign Investment Law and its Implementing Regulations.

Moreover, the Subsidiary violates the Regulation of Ownership and Investment in Real Estate by Non–Saudis, as it has title deeds registered under its name in Makkah and Madinah, and the Subsidiary is not subject to the exceptions granted to the Company in relation to the condition that non-Saudis not own real estate in Makkah and Madinah. Accordingly, the Subsidiary violates the Regulation of Ownership and Investment in Real Estate by Non–Saudis, exposing it to penalties. The company has registered these title deeds in Mecca and Medina before the Council of Ministers Resolution No. (494) dated 14/09/1439H was issued, where the company's shares had been registered in the name of the members of the Board of Directors.

If penalties are imposed for violating the Foreign Investment Law and its Implementing Regulations or the Regulation of Ownership and Investment in Real Estate by Non-Saudis, including, but not limited to, withdrawing all or some of the incentives and benefits provided to foreign investors, imposing a financial fine not exceeding five hundred thousand (500,000) Saudi riyals and canceling the license, this would negatively affect the Company's business, projections, results of operations, financial position and prospects.

2.1.37 Risks Related to Responsibilities of Directors and Senior Officials

The Companies Law, the Corporate Governance Regulations, the Company's Bylaws and the Company's Internal Regulations define the main tasks and responsibilities of the Board of Directors individually and collectively. Taking into account the fulfillment of special conditions, the Companies Law grants shareholders the right to hold the Directors accountable and prosecute them in case of breach or misconduct.

If it is found that any of the Directors and/or Senior Executives have committed a violation that requires penalty, this will expose the Company to strict penalties, and penalties and fines may be imposed on the Board of Directors or any of the Directors of up to five (5) years imprisonment and a fine of up to five million (5,000,000) Saudi riyals under the Companies Law, aside from any provision regarding compensation for real damage, which would adversely affect the Company, its reputation, operations and profitability.

2.2 Risks Related to the Market

2.2.1 Competition with the Company's Business

Real estate financing is the Company's main activity, on which it is primarily reliant on for its revenues and profits, with 6 real estate financing companies and 11 banks as competitors. The Company also has a competitive advantage in attracting customers who may not necessarily be traditional real estate financing customers of competitor banks, as its activity focuses on the self-employed customers segment, in addition to SMEs.

In this regard, the competitors' attraction of customers with better financing items or by providing unique and attractive offers leads to a reduction of the Company's current or potential customer base or an increase in the offers submitted by financiers in the Kingdom without a corresponding increase in finance requests. Accordingly, the Company may amend the prices of its products in response to market variables, which would have a material adverse impact on the Company's business, results of operations, financial position and prospects.

2.2.2 Fluctuations in the Real Estate Market

The Company's profitability depends mainly on real estate market activity and increased demand for real estate finance products. The real estate sector in the Kingdom has witnessed several fluctuations whether in real estate prices or lease rates due to major economic factors, including government policies aiming at supporting housing and decreasing reliance on oil income resources. The Company's business is directly affected by such fluctuations. If the demand for real estate products is below the Company's expectations, this results in losses for company or the reduction of the company's profit margins. Hence, material adverse fluctuations in the real estate sector would have a material adverse impact on the Company's business, projections, results of operations, financial position and prospects.

Moreover, adverse fluctuations in real estate prices or any other adverse economic circumstances in the real estate sector may result in the customers' reluctance to purchase real estate or invest. This includes delaying the decision to purchase or invest until the market becomes stable, which would put pressure on the Company to reduce its financing prices. This would have a material adverse impact on the Company's business, projections, results of operations, financial position and prospects.

2.2.3 Regional Geopolitical Risks

The Middle East is one region that suffers from a lack of political and security stability at the present time. The economic and political circumstances of the countries in the region or any other countries may have a negative impact on capital markets in the Kingdom in general, and the Company's business, results of operations, financial position and prospects.

2.2.4 Risks Related to Change in Overall Economic Performance

Like many other companies, the Company's profitability and success are based on the stability and growth of the economic condition. The Company is affected by several factors related to the economic condition in general, including, but not limited to, reduction of oil prices, inflation factors, reduction of average per capita income and reduction of domestic product. In relation to oil prices, the Kingdom still relies largely on income from oil and oil industries. Subsequently, any adverse fluctuations in oil prices will have a direct and material impact on the plans and growth of Saudi economy in general and government spending rates, which would have an adverse impact on the Company's financial performance due to its operation within the Kingdom's economic cycle and its influence on government spending rates. For example, from 2016G to 2018G, the Company rescheduled 60 finance contracts of SAR 821.9 million due to the impact of the Kingdom's general economic condition on the Company. The continuous growth of the Saudi economy depends on several other factors, including the continuous investment of government and private sectors in infrastructure. Thus, any change to any such factors will have a significant impact on the economy and will accordingly have a negative and material impact on the Company's business, results of operations, financial position and prospects.

2.2.5 Difficult Liquidation of Real Estate Investments

Since real estate investments are in general long-term investments, it is difficult to liquidate them quickly without affecting the real estate's price. The Company maintains a portfolio of real estate assets, which forms a guarantee of its finance products. If the Company's customers were to default, especially if this occurred suddenly or collectively as a result of general economic circumstances, it would be difficult for the Company to liquidate the real estate related to contracts of customers in default at appropriate prices within a short time, which will have a negative and material impact on the Company's business, projections, results of operations, financial position and prospects.

2.2.6 Risks Related to Changing Laws and Regulations

The Company is subject to a number of laws, regulations and regulatory authorities, including but not limited to the Ministry of Commerce and Investment, SAMA, the CMA and Tadawul (after completion of offering and listing). The Kingdom is witnessing large and rapid development in relation to the development and update of laws, regulations and legal procedures at all levels and in all fields. This includes making amendments to the Companies Law and the regulations issued by the CMA. Accordingly, the current laws and regulations to which the Company and its business are subject may be changed and updated, and the Company may be subject to new laws and regulations that may be issued by relevant competent authorities from time to time. This may have an adverse impact on the Company's revenues, increase its costs, increase its obligations, limit its ability to realize expansion plans, implement its projects or lose permits, which would have a negative and material impact on the Company's business, results of operation, financial positions and prospects. For example, the bankruptcy law was issued recently and its application features have not been clarified yet as it is a new law; however, the law includes clauses that may affect the Company in terms of its ability to collect from its customers in default. The law provides options to persons in default and lenders to reach an agreement to protect the person in default from bankruptcy, which involve rescheduling or even reduction of the Company's entitlements. Subsequently, the occurrence of any of such results may have a negative and material impact on the Company's business, financial position, results of operations and prospects.

2.3 Risks Related to the Offer Shares

2.3.1 Risks Related to Control by the Current Shareholders

After completion of subscription and listing of the Company's Shares, the Current Shareholders, numbered at twenty-six (26), will have sixty-three million, four hundred twenty thousand (63,420,000) shares, representing seventy percent (70%) of the Company's Share Capital. Consequently, those Shareholders will be collectively able to control the significant and high impact decisions related to the decisions of the Company's General Assembly, including but not limited to the election of the Board of Directors, authorization of contracts in which a director has a direct or indirect interest, the engagement of a director in a business that competes with the Company and amendments to the Bylaws. These powers may be used in a manner that may have a material impact on the Company's business, financial position and results of business. After the end of the Lock-up Period for Major Shareholders and over time, the shareholding structure may change, which could allow a group of shareholders to control the Company's decisions in a manner that materially affects the Company's business, financial position, results of business and prospects.

2.3.2 Risks Related to Liquidity and Absence of a Prior Market for the Company's Shares

There is not currently and has not previously been a financial market for the Company's Shares, and there may not be an active and continuous trading market for the Company's Shares following completion of the Offering. If no active trading market for the Company's Shares develops, this may have an adverse impact on the liquidity and market price of the Company's shares.

The Offer Price has been determined based on several factors, including the Company's history, its business prospects, and the market sector in which it operates as a competitor, as well as the evaluation of the administrative, operational and financial results of the Company. Several factors such as the Company's financial results, general circumstances, the health of general economy and the regulatory environment in which the Company operates may result in a significant variation in the liquidity of the Company's Share trading and price.

2.3.3 Risks Related to Distribution of Dividends and Restrictions Imposed on Distribution of Dividends by Financers

Distribution of dividends to shareholders relies on several factors, including but not limited to realizing profits and the volume of profits realized, the Company's financial position, financing and investment needs, the availability of cash liquidity and restrictions imposed by lending entities on the Company's distribution of dividends. Some financers require the company not to distribute dividends to shareholders unless its debt coverage is equal to the set minimum, which might be hard for the Company to realize or maintain. The Company is subject to some controls related to the approval of SAMA on distributing dividends in accordance with the Law on Supervision of Finance Companies, which contains some conditions in this regard. An important condition thereof is that the distribution of dividends shall not result in rendering financial adequacy or liquidity levels lower than the required limits. Furthermore, such distribution cannot, within the fiscal year, exceed the profits realized in the previous fiscal year, in addition to any other conditions established by SAMA. Moreover, the Company's ability to distribute dividends to Shareholders depends on other factors that are subject to the evaluation of the Board of Directors. Accordingly, the Company may not be able to distribute any future dividends (see Section (7) "Dividend Distribution Policy" for more information).

2.3.4 Risks Related to Fluctuation in the Share Price

Subscribers may not be able to re-sell the Shares for which they subscribe for a price equal to or higher than the Offer Price. The market price of the Offer Shares may be adversely affected after subscription by several factors, some of which may be under the Company's control and others may be beyond its control. This includes, but is not limited to, negative changes to the Company's operational performance, actual or expected volatility in quarter or annual results of operations or changes to laws and regulations applied to the Company or market conditions. Market volatility and the general economic condition may also have a material adverse impact on the Share Price in the market, which would last for long periods.

2.3.5 Risks Related to Selling a Large Number of Shares in the Exchange, and Issuance of New Shares

The market is exposed to periods of volatility and instability, and selling a large number of the Company's shares after being listed on Tadawul or the belief that such will occur may affect the market price of the Company's Shares, as it would reduce the Company's Share Price and this could last for prolonged periods. The Company does not currently intend to issue additional shares immediately after completion of the Offering. However, if the Company decides to collect additional capital through issuing new shares, this would reduce the percentage of current shareholdings to some extent if the Current Shareholders do not exercise their rights upon issuing new equities, or if the Current Shareholders decide to sell a large number of Shares, which would reduce the value of recently issued shares.

3. Market and Sector Overview

3.1 Market Overview

The information shown in this Section (Market Overview) is based on an independent market study report prepared by 4 Sights Arabian Market Vision Company exclusively for the company dated 24/02/1440H corresponding to 05/11/2018G. The Market Consultant developed a market study covering the real estate financing sector in the Kingdom of Saudi Arabia. 4 Sights Arabian Market Vision Company is an independent Saudi based company headquartered in Riyadh that was established in 2009G. For further information about the Market Consultant please visit www.4sight-global.com. It shall be noted that neither the Market Consultant nor any of its affiliates or sister companies, partners, shareholders, members of its board of directors, directors or their relatives, own any kind of shares or interest in the Company or its affiliate companies. The Market Consultant has provided his written approval on the use of his name, logo and the market information provided to the Company as shown in this document, and such approval has not been withdrawn as of the date of this prospectus.

It shall be noted that 4 Sights Arabian Market Vision Company is a company specialized in statistics and market information gathering operating in the MENA Region and has partnerships in the consumer goods sector, banking and financial services, real estate, communications, retail, government sector and others. The company believes that the information and data obtained or extracted from the market study report prepared by the Market Consultant is credible. However, there is no reason to consider such information inaccurate. The Board of Directors, selling shareholders and Advisors have not independently checked the accuracy of such data and information and therefore cannot provide a guarantee of its accuracy or completeness.

3.1.1 Macroeconomic Situation in the Kingdom

The Saudi economy is showing signs of improving economic fundamentals. As per the Saudi Arabian Monetary Authority (SAMA), the nominal Gross Domestic Product (GDP) of Saudi Arabia grew by about 6.5% from SAR 2.42 billion in 2016G to SAR 2.58 billion in 2017G. Moreover, Saudi Arabia ranked 20th among the world economies in 2017G as per the nominal GDP. Another indicator of a strong economy is displayed by the increasing GDP per capita that grew from SAR76,083 in 2016G to SAR78,965 in 2017G.

Table (9): Key Macroeconomic Indicators

Indicator	2012G	2013G	2014G	2015G	2016G	2017G
GDP at current prices (SR billion)	2759.9	2799.9	2836.3	2453.5	2418.5	2575.3
Real GDP (Avg. Annual Growth %)	5.4	2.7	3.7	4.1	1.7	(0.9)
Population (million)	29.2	30.0	30.8	31.4	31.8	32.6
GDP per Capita (SR)	94,531	95,300	94,553	79,425	76,083	78,965
Budget Surplus/Deficit (SR million)	329,340	157,878	(100,462)	(388,599)	(311,065)	(238,494)
CPI Inflation (Y/Y % change)	2.9	3.5	2.2	1.2	2.1	(0.8)
Trade Balance (SR billion)	873.03	778.94	632.25	108.28	162.79	327.43

Source: Saudi Arabian Monetary Authority (SAMA), 2012G-2018G.

Despite the contraction in real GDP, the economy managed to considerably reduce budget deficit in 2017G as compared to 2016G due to the implementation of various policy reforms. This reflects efficient fiscal management. Moreover, the share of non-oil earnings in the total government revenue grew from 27% in 2016G to 37% in 2017G(2).

Saudi Arabia has made visible progress in implementing its ambitious reform program under the 2020G National Transformation Program as part of the 2030 Vision. To diversify the Saudi economy and make it less dependent on oil revenue, the government has taken several economic and social policy decisions such as the implementation of value added tax, reduction in energy subsidies, opening of cinema and women driving thereby creating a more dynamic private sector and more job creation for nationals.

Saudi budget outlay grew by 5.6% from SAR111 billion in 2017G to SAR978 billion in 2018G and dedicated to improving the business environment, a key part of government efforts to encourage more private sector investment coupled with increase in public spending and lowering of austerity measures.

(2) International Monetary Fund, June 2018G; SAMA Annual Statistics 2017G; SAMA Annual Statistics 2017G.

3.1.2 Population Demographics

The total population of Saudi Arabia was estimated at 27.14 million in 2010G, which reached 32.55 million in 2017G growing at a CAGR of 2.6%. As per the World Bank estimates, the population is likely to grow at a CAGR of 1.6% during 2018G-2025G and will reach 34.14 million in 2020G and 36.96 million in 2025G. Furthermore, Saudi Arabia is a relatively young country with 37% of its citizens falling in the age group of 15-34 years, which will increase the demand for housing.

Table (10): Population Growth – 2010G – 2025G

Year	2010G	2017G	2020f	2025f
Population (million)	27.14	32.55	34.14	36.96

Source: General Statistics Authority, KSA, 2017; f - World Bank Forecasts.

The distribution of population by nationality shows that there were 63% Saudis and 37% non-Saudis in 2017G as opposed to 2010G figures of 69% Saudis and 31% non-Saudis.

Table (11): Population distribution by nationality, 2017G

Nationality	Population	% Share
Saudis	20,408,362	63%
Non-Saudis	12,143,974	37%
Total	**32,552,336**	**100%**

Source: General Statistics Authority, KSA, 2017G.

The distribution of population across regions shows that the western and the central regions together constituted about 64% of the total population in the Kingdom. The highest percentage (34%) of expats live in the western region followed by the central region (30%).

Table (12): Population distribution by region, 2017G

Region	Population	% Share
Western Region	11,166,617	34%
Central Region	9,640,219	30%
Eastern Region	4,900,325	15%
Southern Region	4,361,665	13%
Northern Region	2,483,510	8%
Overall	**32,55,2336**	**100%**

Source: General Statistics Authority, KSA, 2017G.

3.1.3 Saudi Real Estate Financing Sector

The Saudi real estate financing market primarily consists of six specialized real estate finance companies (as shown in the table) besides the 11 commercial banks that extend various types of real estate financing to citizens and expatriates. All the real estate finance companies are Saudi closed joint stock companies. Moreover, as of 2017G, there were 34 finance companies licensed to operate in Saudi Arabia. Six companies provide real estate financing while the other 28 companies provide finance products other than real estate financing.

The following table shows the authorized and paid-up share capital and approval dates of the six real estate finance companies:

Table (13): Companies Licensed to Provide Real Estate Finance other than Banks

Company Name	Paid-up Capital (SR million)	SAMA License Approved on
Amlak International	906	24/12/2013G
Dar Al Tamleek	509	31/12/2013G

Company Name	Paid-up Capital (SR million)	SAMA License Approved on
Saudi Home Loans	1000	27/02/2014G
Deutsche Gulf Finance	575	20/05/2014G
Abdul Latif Jameel for Real Estate Finance	200	07/12/2014G
Bidaya Home Finance	900	14/12/2015G

Source: Audited Annual Reports of real estate finance companies; Saudi Arabian Monetary Authority (SAMA)

These companies along with the 11 Saudi commercial banks and branches of international banks offer a comprehensive range of retail and corporate finance products and services. Among the commercial banks, there are four banks that provide only Sharia-compliant financial products and services: Alinma Bank, AlRajhi Bank, Bank Albilad and Bank Aljazira. The remaining eight Saudi banks combine both conventional and Sharia-compliant banking products and services.

In addition to the real estate finance companies and commercial banks, there are some other state-run credit institutions operating in Saudi Arabia such as the Real Estate Development Fund (REDF) and Saudi Real Estate Refinance Company (SRC) that is owned by Public Investment Fund (PIF).

The Real Estate Development Fund was established in 1974 to meet the needs and aspirations of the Kingdom's citizens by financing individuals' residential real estate requirements. Since its inception, the Fund has disbursed a total credit of about SR 157.8 billion towards housing loans to the citizens(3).

The Saudi Real Estate Refinance Company (SRC) is the latest institution established by the Saudi government (as part of the 2020 NTP and 2030 Vision) for the development of the housing finance market in the Kingdom. SRC was established in 2017 with an initial capital of SAR 5 billion from PIF. It is licensed by SAMA and offers lenders funding to provide liquidity or capital relief, enabling growth in the home loan market to increase wider home ownership amongst Saudis. SRC then aggregates and packages portfolios of loans into mortgage backed securities to sell to domestic and international investors.(4)

As of April 2018, the international ratings agency Standard and Poor's has affirmed Saudi Arabia as a stable economy based on its expectation that the Saudi authorities will take steps to consolidate public finances and maintain government liquid assets close to 100% of GDP over the next two years. The Kingdom is rated A1 by Moody's Investors Service and A+ by Fitch Ratings. International Monetary Fund (IMF) also shows high confidence in the long term financial and economic outlook of the country by projecting the GDP to grow by 1.6% in 2018(5).

3.1.4 Market Size, Segments and Past Trend

Based on the real estate loans disbursed by different providers, the size of the Saudi real estate finance market in 2017G was SAR 383.46 billion. Commercial banks accounted for the bulk of the market with 55.2% share. Real estate finance companies contributed 3.8% while REDF 41.0%.

Table (14): Market Size of Real Estate Finance in Saudi Arabia – Year 2017G

Source	Loans Disbursed (SR million)	Share in total (%)
Real Estate Finance Companies	14,701	3.8%
Commercial Banks	211,499	55.2%
Real Estate Development Fund (REDF)	157,264	41.0%
Total	**383,464**	**100%**

Source: 4SiGHT Calculations based on audited Annual Statistics from Saudi Arabian Monetary Authority.

Market segmentation by type of loan shows that in the year 2017G, the retail segment accounted for 76% of the market while the remaining 24% of disbursed loans were provided to corporate borrowers.

(3) SAMA Annual Statistics, 2017G.
(4) Built on information available at http://srco.com.sa/About.aspx.
(5) IMF, World Economic Outlook Report, January 2018G.

Table (15): Segmentation of market by type of loan – Year 2017G

Customer Segment	Loans Disbursed (SR million)	Share in total (%)
Retail	290,848	76%
Corporate	92,616	24%
Total	**383,464**	**100%**

Source: 4SiGHT Calculations based on audited Annual Statistics from Saudi Arabian Monetary Authority.

The analysis of historical trend (2010G-2017G) of the disbursed loans by source shows that the overall market grew by 15% during the period 2010G-2017G. REFCs show the highest growth of 27% followed by commercial banks with a CAGR of 20% followed by REDF loans which grew at CAGR of 11% during the same period.

Table (16): Trend in Market Size of Real Estate Finance in Saudi Arabia- 2010G-2017G

Source	Loans Disbursed (SR million)								
	2010G	2011G	2012G	2013G	2014G	2015G	2016G	2017G	CAGR
REFCs	2,757	5,298	7,388	9,729	11,050	12,131	13,592	14,701	27%
Commercial Banks	59,968	70,211	88,024	115,568	155,753	185,302	200,402	211,499	20%
REDF	77,597	78,879	99,596	116,678	129,518	149,261	157,742	157,264	11%
Total	**69,476**	**90,297**	**114,293**	**145,852**	**184,130**	**224,892**	**225,813**	**231,848**	**15%**

Source: 4SiGHT Calculations based on audited Annual Statistics from Saudi Arabian Monetary Authority.

3.2 Target Market

3.2.1 Segmentation of market by current building type

The analysis of the building permits shows that during the last 5 years (2012G-2016G), the Ministry of Municipal and Rural Affairs (MOMRA) issued an average of about 118,042 permits for constructing buildings in the Kingdom. Share of housing and commercial (standalone housing and joint use of housing and commercial) comes out to be 91% of all the permits issued and hence should be the target segment.

The trend in building permits issued shows that overall the number of permits has grown by 6.4% from 100,756 permits in 2012G to 129,322 permits in 2016G while housing and commercial category has grown by CAGR of 7.1% from 90,480 in 2012G to 107,533 in 2016G.

Table (17): Number of Building Permits by Building Type, 2017G

Building Type	2012G	2013G	2014G	2015G	2016G	Avg.	% Share	CAGR
Housing, Commercial	90,480	107,720	101,544	118,860	119,060	107,533	91%	7.1%
Industrial, Commercial	7,971	7,098	9,707	7,289	7,545	7,922	7%	(1.4%)
Educational Buildings, Health and Mosques	1,568	1,907	1,684	2,075	1,893	1,825	2%	4.8%
Social Buildings and Governmental	737	537	584	1,128	824	762	1%	2.8%
Total	**100,756**	**117,262**	**113,519**	**129,352**	**129,322**	**118,042**	**100%**	**6.4%**

Source: Ministry of Municipal and Rural Affairs, 2017G.

3.2.2 Segmentation of market by housing tenure

The distribution of Saudi housing units by tenure of housing shows that there were a total of 3.5 million housing units in the Kingdom in 2017G that had a population of about 21 million persons. The analysis of housing tenure shows that about 60% of the houses are owned which accommodate about 66% of the population while 38% are rented accommodating another 33% of the population. This analysis shows the clear target for housing finance in the Kingdom for at least about 1.33 million households who live in rented accommodation and would require own housing in the future. This demand may also increase when new households are formed from these existing households. Moreover, the households that have own houses may also need new housing as replacement demand or even for investment purpose.

Table (18): Saudi Housing Units, Households and Individuals by tenure of Housing units, 2017G

Housing Tenure	No. of Housing Units	% to Total	Persons	% to Total
Owned	2,100,129	59.9%	13,727,989	65.6%
Rented	1,332,407	38.0%	6,934,594	33.1%
Provided by Employer	59,353	1.7%	210,602	1.0%
Other	12,801	0.4%	57,997	0.3%
Total	**3,504,690**	**100%**	**20,931,182**	**100%**

Source: Housing Survey, General Statistics Authority, KSA, 2017G.

3.2.3 Segmentation of market by Region

The segmentation of the market by region shows that the Western Region, with 43% of the building permits, is the largest market for all type of building construction as reflected by the percentage share (43%) of building permits for the western region. This could be due to the nature of the region, where the two holy cities of Makkah and Madinah are located, and which undergoes construction of commercial building such as hotels, furnished apartments, restaurants, retail stores etc. for pilgrims. The Central Region comes second with 29% of all the issued permits in 2017G.

Table (19): Number of Building Permits by Region

Region	Central	Western	Eastern	Southern	Northern	Total
% share	29%	43%	14%	8%	6%	100%

Source: Ministry of Municipal and Rural Affairs, 2017G.

Furthermore, data on housing tenure by region shows that of the total population of Saudi citizens living in rented accommodation, central and western region together constitute 68% of them. This clearly shows that these regions will have more demand for housing than other regions.

Table (20): Percentage of Saudi Households by Rented Houses and Region

	Central	Western	Eastern	Southern	Northern	Total
Rented House	30%	38%	17%	11%	4%	100%

Source: Housing Survey, General Statistics Authority, KSA, 2017G.

3.3 Market Need

3.3.1 Current structure of market by housing unit

The current structure of housing types (for Saudis) shows that 44% of the population live in apartments while 37% live in villas and 18% in traditional houses. This analysis shows higher current usage of apartments and villas which will be more in demand in future as traditional houses are not built anymore.

Table (21): Saudi Housing Units by Type of Housing Unit, 2017G

	Apartment	A Floor in a Traditional House	A Floor in a Villa	Villa	Traditional House	Total
Housing Units	1,530,655	26,402	270,865	1,031,647	645,121	3,504,690
% share	44%	1%	8%	29%	18%	100%

Source: Housing Survey, General Statistics Authority, KSA, 2017G.

3.3.2 Individual/Retail

Using the survey findings on preferred type of house, the segmentation of the demand by house type shows that 50% of the potential customers would prefer villas while 33% prefer duplex and 18% apartments.

Table (22): Preference for House Type

	Villa	Floor in a villa/Duplex	Apartment	Total
% share	50%	33%	18%	100%

Source: 4SiGHT Survey findings.

As per the survey findings, 68% of the respondents prefer to buy a fully constructed house, 25% would prefer to buy land and construct a house on their own while 7% preferred to buy an under-constructed house.

Table (23): Preference for Mode of Construction

Mode of Construction	% Share
Buy land to construct a house	25%
Buy an under-construction house (off-plan)	7%
Buy a fully constructed house	68%
Total	**100%**

Source: 4SiGHT Survey findings.

As per the survey findings, 35% of the respondents prefer REDF loan, 25% would apply for bank loan, 15% prefer real estate financing company, 10% would use their own money (savings) while 15% would pool funds from employer, family and friends. Overall, the findings show that there is significant demand for home financing/loan as 75% would use some financing institution for their housing needs. Moreover, most of the citizens would look for Islamic/Sharia compliant financing.

Table (24): Preference for Source of Funding

Source of Financing	Response %
REDF	35%
Commercial bank	25%
RE Financing company	15%
Own money	10%
Others (employer/family/friends)	15%
Total	**100%**

Source: 4SiGHT Survey findings.

3.3.3 Corporate & Businessmen

When exploring business demand, 44% of the businessmen mentioned buying a real estate or commercial land, 22% need financing for completing real estate projects, 18% would be buying some type of property while 16% need finance against real estate guarantee.

Table (25): Type of Business Need

Business need	% Share
Buying a real estate or commercial land	44%
Constructing or completing the construction of real estate project(s)	22%
Buying an under-constructed or fully constructed/ready real estate or commercial property	18%
Seeking finance against real estate guarantee	16%
Total	**100%**

Source: 4SiGHT Survey findings.

Majority of the businesses demand real estate property for investment purposes (66%), business expansion (62%) and better business location (62%). Moving to a better locality or a bigger premise were the other reasons.

Table (26): Reasons for business need

Reasons	Response %
Investment purposes	66%
Business expansion	62%
Good location for business	62%
Moving to a better locality	48%
Moving to a bigger business premise	41%
Better paying installments instead of rent	3%

Source: 4SiGHT Survey findings, Multiple response (percentages non-additive)

To finance their property purchase in future, 53% would prefer bank mortgage, 22% would prefer real estate financing company, 19% would use their own money (savings) while 6% would pool funds from family and friends.

Table (27): Preference for Source of Funding

Source of Financing	Response %
Through bank mortgages	53%
Financing company mortgage	22%
Own money	19%
Loan from friends/family	6%
Total	**100%**

Source: 4SiGHT Survey findings.

3.4 Market Outlook(6):

The Saudi Ministry of Housing has set a target for the mortgage market to reach a total value of SAR 502 billion by 2020G from a current SAR 290 billion. The Saudi Ministry of Housing and REDF initiated a housing loan program in 2018G which includes 300,000 real estate and financing products distributed along all regions of the Kingdom. These products include 125,000 housing units that has been provided in partnership with the private sector, 75,000 developed residential lands that are provided free of charge, in addition to 100,000 loans supported by REDF, commercial banks and financial institutions. To reduce the burden of the advance payment on citizens, REDF has also reduced the down payment for the first house from 15% to 10%.

Saudi Arabia's subsidized housing loan program will cover three types of loan applications: building a unit, buying a built unit, or off-plan sale. The program will serve the beneficiaries of housing subsidies, as well as applicants on REDF's waiting list. REDF launched its accelerated loan program in partnership with a number of Saudi commercial banks including Riyad Bank, Arab National Bank, Alinma Bank, Bank Albilad, Al Rajhi Bank, National Commercial Bank, Banque Saudi Fransi, Aljazira Bank as well as real estate finance companies - Amlak International for Real Estate Finance Co., Saudi Home Loans (Sahel), Dar Al Tamleek as well as Bidaya Home Finance.

3.5 Market Drivers(7)

The Saudi real estate finance sector may be explained considering the drivers as follows:

- **Government initiatives and backing**: As part of the National Transformation Plan 2020G (Vision 2030), the Saudi government wants to increase activity in the real estate market as it moves to revitalize the economy and is taking steps to reform the sector. One of the key performance indicators (KPIs) of vision 2030 is increasing the household ownership ratio for citizens to 52% by 2020G, which would mean additional 1.2 million housing units by 2030G. Another KPI is to increase the size of real estate financing relative to GDP from current level of about 5% to 10%. Increasing the growth rate of the sector from the existing 4% to 7% in 2020G is another KPI to strengthen the sector. Besides these, REDF and SRC are also mandated by the government to facilitate real estate financing.
- **Increased loan to value ratio**: SAMA increased the maximum loan-to-value ratio, set forth in Article 12 of the Implementing Regulation of the Real Estate Finance Law, from 70% to 85% in 2017G and then further to 90% in January 2018G for citizens' first residential units. This will support the growth of the real estate finance sector and contribute to the integration with the national housing objectives, without

(6) Built on https://www.reuters.com article on housing-financing in Saudi Arabia.
(7) Built on NTP-2020G (Vision 2030) document and 'Saudi Arabia – Real Estate & REITs Performance and Outlook', Falcom Financial Services, 2018G.

adversely impacting the requirements of banking sector soundness and financial stability.

- **White Land Tax**: Imposition of the white land tax of 2.5% since 2017G has resulted in an area of 400 million sq. m. available for development in Riyadh, Jeddah, Dammam and Makkah cities alone. The tax has also brought down the real estate prices by an average of about 18.5%. This has led to increased real estate development activity and is addressing the shortage of residential units.
- **Growth in REITs**: The approval of regulations for the use and listing of real estate investment trusts (REITs) is another market driver as the assets of real estate investment funds have grown by 24% during 2012G-2017G increasing from SAR1,817 million in 2012G to SAR 4,249 million in 2017G.
- **Boosting religious tourism**: Under Vision 2030, KSA aims at more than doubling its foreign Umrah visitors from 8 million in 2015G to more than 15 million per year in 2020G by increasing its capacity. Ongoing major projects will continue with the construction of the North Haram Development in Makkah and the Dar Al Hijrah City in Madinah, set for completion in Q3 2020G and Q2 2019G respectively.
- **Large infrastructure projects**: Construction of smart cities like NEOM and King Abdullah Economic City would drive the demand for high-quality commercial spaces, while Red Sea Project would increase tourist flow, positively impacting hospitality real estate.
- **Rising public-private partnership (PPP)**: KSA's government is encouraging the private sector's participation in the economy. The private sector's involvement in large-scale residential and commercial projects is likely to ensure timely delivery and resolve operational inefficiencies.
- **Onset of social reforms**: KSA has allowed licensing regulations for cinemas, lifting a 35-year ban on the screening of movies. This could help revive shopping malls, which would drive demand for retail real estate.

3.6 Competitive Landscape

According to the audited annual financial reports of the real estate finance companies in Saudi Arabia, the total assets of these companies were about SAR11 billion. Saudi Home Loans, with the total assets of SAR4.3 billion accounted for the largest asset share with 38% of the total assets of the real estate finance companies in Saudi Arabia. Amlak International comes second with total assets of SAR 3.3 billion (29%) followed by Deutsche Gulf Finance (14%). Dar Al Tamleek and Bidaya Home Finance both account for about 9% each while ALJUREF comes last with asset share of about 2%.

Table (28): Ownership and Assets of Real Estate Finance Companies on 31 December 2017G

Company Name	Government Ownership	Foreign Ownership	Total Assets	
			SAR million	% to Total
Amlak International	Nil	Nil	3,327	29.3%
Dar Al Tamleek	GOSI, PPA	Nil	974	8.6%
Saudi Home Loans	Nil	IFC	4,296	37.9%
Deutsche Gulf Finance	Nil	Deutsche Bank	1,578	13.9%
Abdul Latif Jameel United Real Estate Finance Co. (ALJUREF)	Nil	Nil	194	1.7%
Bidaya Home Finance	PIF	Nil	967	8.5%
Total			**11,336**	**100%**

Source: 4SiGHT compilation from audited Annual Reports of real estate finance companies.

Note: GOSI – General Organization for Social Insurance; PPA – Public Pension Agency; IFC – International Finance Corporation; PIF- Public Investment Fund.

Most of the real estate financing companies in Saudi Arabia are funded by private sector while government entities own stake in some of them as in Dar Al Tamleek and Bidaya Home Finance. On the other hand, Saudi Home Loans and Deutsche Gulf Finance have some foreign ownership as well.

Loan portfolios are concentrated in retail loans, with limited lending to corporate clients. As of end of financial year 2017G, retail loans accounted for 83% of the total loans while 17% of the loans went to corporate clients. Net loans increased by 8% from SAR 13.6 billion in 2016G to SAR 14.7 billion in 2017G.

Table (29): Consolidated Net, Retail and Corporate Loans as of 31 December 2017G

Real Estate Finance Companies	Net Loans		Net Retail Loans		Net Corporate Loans	
Million SAR	2016G	2017G	2016G	2017G	2016G	2017G
Consolidated	13,592	14,701	11,402	12,142	2,190	2,559

Source: SAMA.

3.6.1 Assets and Liabilities

Saudi real estate finance companies witnessed positive efficiency and asset quality year on year for 2016G-17. Total assets increased from SAR 11.28 billion in 2016G to SAR 11.34 billion in 2017G. Total liabilities decreased from SAR 6.6 billion in 2016G to SAR 6.5 billion in 2017G.

Table (30): Assets and Liabilities as of 31 December 2017G

Real Estate Finance Companies	Assets		Liabilities		Shareholder equity	
Million SAR	2016G	2017G	2016G	2017G	2016G	2017G
Consolidated	11,277	11,336	6,646	6,527	4,630	4,810

Source: 4SiGHT compilation from audited Annual Reports of real estate finance companies.

3.6.2 Profitability

During the 2016G-2017G financial period, while operating income of the real estate finance companies increased by 12% from SAR573 million in 2016G to SAR642 million in 2017G, operating expenses increased marginally from SAR358 million in 2016G to SAR361 million in 2017G.

Table (31): Consolidated Operating Income, Operating Expenses and Net Income as on 31 December 2017G

Real Estate Finance Companies	Operating income		Operating expenses		Net income	
Million SAR	2016G	2017G	2016G	2017G	2016G	2017G
Consolidated	573	642	358	361	215	281

Source: 4SiGHT compilation from audited Annual Reports of real estate finance companies.

The real estate finance companies improved their efficiency as reflected by reduction in the ratio of operating expenses to operating income from 62% in 2016G to 56% in 2017G.

3.6.3 Operations and Distribution

Table (32): Amlak International's Market Share compared to others – 2016G-2017G

Company Name	Headquarter	Branches	Market Coverage
Amlak International	Riyadh	Jeddah, Khobar	KSA
Dar Al Tamleek	Jeddah	Jeddah, Riyadh, Khobar	KSA*
Saudi Home Loans	Riyadh	Jeddah, Dammam	KSA*
Deutsche Gulf Finance	Riyadh	Jeddah, Khobar	KSA*
ALJUREF	Jeddah	Riyadh, Khobar	KSA
Bidaya Home Finance	Riyadh	Jeddah, Dammam	KSA

Source: 4SiGHT compilation from audited Annual Reports of real estate finance companies.

Note: * except Makkah and Madinah.

All the companies have at least two branches each in the major Saudi cities of Riyadh, Jeddah, Dammam or Khobar. However, Dar Al Tamleek has four branches.

Three companies are authorized to operate in the entire Kingdom of Saudi Arabia on the purchase, sale and ownership of land and real estate and real estate units for financing, while three can't operate in the cities of Makkah and Madinah.

Moreover, all the real estate finance companies offer financing products for apartments, villas, duplexes, multi-family investment property and lands purchase. Except in some cases, the real estate financing products are available to citizens as well as expatriates with varying requirements and contract conditions in terms of maximum loan amount, loan tenure, rate of profit, down payment, income etc.

3.7 Competitive Position and Key Performance Indicators

Amlak International for Real Estate Finance Co. is the first real estate financing company in the Kingdom that was licensed by SAMA. Amlak is a Sharia compliant key real estate financial firm in the Saudi market. Amlak shareholders include the prominent and experienced investor in the banking and financial sector - The Saudi Investment Bank, Amlak Finance (UAE), Al Tawfeek Development House, Almakarim International for real estate development and Aseer Company for Trading and Tourism.

As part of the Sharia compliance principles and regulations, Amlak has created an independent Sharia Board which consists of several scholars who are specialized in the jurisprudence of financial transactions and Islamic Economics.

In the year 2017G, Amlak International had a market share of 29% in operating income and 37% in net income.

Table (33): Amlak International's Market Share compared to others – 2016G-2017G

Real Estate Finance Companies	Operating income		Net Income	
	2016G	2017G	2016G	2017G
Amlak (SAR million)	192	184	109	103
Other Players (SAR million)	381	458	108	179
Total (SAR million)	573	642	215	281
Amlak's share (%)	34%	29%	50%	37%

Source: 4SiGHT compilation from audited Annual Reports of real estate finance companies.

Among the players, Amlak registered the highest return on equity of 8.7% and market share of 37% in terms of net income in 2017G. Saudi Home Loans comes second with 35% market share in net income and 7% in ROE. Deutsche Gulf Finance also achieved 7% in ROE and 18% market share in net income. Bidaya incurred losses of SAR 17 million in 2017G and hence negative ROE.

Table (34): Amlak International Operating Income, Net Income and Return on Equity, 2017G

Real Estate Finance Companies	Operating income		Net Income		Return on Equity (annual)
	SR million	Segment %	SR million	Segment %	%
Amlak International	184	29%	103	37%	8.8%
Dar Al Tamleek	144	22%	51	18%	8.2%
Saudi Home Loans	169	35%	100	35%	6.9%
Deutsche Gulf Finance	82	17%	41	15%	7.0%
Abdul Latif Jameel for Real Estate Finance	15	2%	4	1%	2.2%
Bidaya Home Finance	48	7%	(17)	(6%)	(2.1%)
Total	**642**	**100%**	**282**	**100%**	

Source: 4SiGHT Calculations based on audited Annual Reports of real estate finance companies.

3.8 Barriers to Entry

The Saudi real estate finance market has some entry barriers that are conducive to the existing players as new players are restricted to enter the market. The entry barriers are presented below:

1. **High capital requirement:** Establishing real estate finance company in Saudi Arabia requires a minimum capital amount of SAR 200 million. This basic capital requirement acts as a deterrent to the new players.
2. **Liquidity risk barrier:** liquidity poses a problem for investment in real estate market. Also, the real estate finance market has temporal risk factor as it takes time to recover the loan amount.
3. **Geographical barrier:** There is also restriction on entering some regional markets that SAMA may restrict the company to operate in.

3.9 Real Estate Financing Regulation and Supervision in KSA

The real estate financing sector is supervised and regulated by SAMA, taking the actions necessary to maintain the integrity and stability of this business and protect workers' rights therein. SAMA is also responsible for issuing finance licenses in accordance with the provisions of finance laws and their regulations under the (i) Finance Companies Control Law, (ii) the Real Estate Finance Law and (iii) the Finance Leasing Law.

Real Estate Finance Law contributes to the provision of housing for citizens, by providing controls that ensure the necessary guarantees in practicing the real estate finance business and protect the rights of all parties involved in the financing transaction.

SAMA license real estate finance companies to engage in real estate finance activities in accordance with the provisions of the Law, Finance Companies Control Law and their regulations. SAMA also take necessary measures for maintaining the integrity and stability of the sector and fairness of transactions. It also takes necessary measures for promoting fair and effective competition between real estate finance entities. SAMA also keep issuing rules and instructions to regulate the sector and take proper means for the development of the sector, Saudization, and raising the employees' competency through regulating the obligations of the real estate finance entities regarding the training of human resources, improving their skills and developing their knowledge.

4. The Company and the Nature of its Business

4.1 Company Overview

Amlak International for Real Estate Finance is a closed joint stock company established in Riyadh, Al Maathar District under Commercial Registration No. 1010234356 dated 27/05/1428H (corresponding to 13/06/2007G) by virtue of Minister of Commerce and Industry Resolution No. 132/S dated 25/05/1428H (corresponding to 11/06/2007G). It is licensed under SAMA License No. 2/PU/201312 dated 21/02/1435H (corresponding to 24/12/2013G) and SAGIA License No. 102030115042 dated 19/12/1427H (corresponding to 09/01/2007G). Its registered address is P.O. Box 28088, Al Mathar Street, Riyadh, 11437, KSA the Company's headquarters were then transfer to their new location located at 3485 ath thumamah road, Al Rabie District Riyadh 13316 - 8450 P.O. Box 28088, Riyadh, 11437, Kingdom of Saudi Arabia. The main activity of the Company is to engage in the corporate and retail real estate finance business.

The Company is the first company licensed by SAMA to engage in real estate finance business in the Kingdom of Saudi Arabia. The Company provides real estate solutions to retail and corporates sectors under the supervision of a Sharia supervisory board composed of members with experience and knowledge in Islamic finance. As of 30 June 2019G, the Company had 130 employees all over the Kingdom (see Section (5.10) "**Employees**" for more details).

As of 30 June 2019G, the total equity stood at SAR 1,145.9 million compared to SAR 1,126.9 million as of 31 December 2018G. The Company's assets were SAR 3,326.9 million as of 30 June 2019G compared to SAR 3,263.5 million as of 31 December 2018G. As of 30 June 2019G, the Company's loans were SAR 2,027.1 million compared to SAR 1,994.1 as of 31 December 2018G.

The Company realized a total revenue of SAR 267.1 million for the financial year ended 31 December 2018G, and the net profit of 2018G was SAR 97.6 million. Total revenues were SAR 137.6 millio and net profit was SAR 23.3 million during the six-month period ended 30 June 2019G.

4.2 The Company's Structure

4.2.1 Overview

The Company owns all of the shares of Amlak International for Real Estate Development, which total five thousand (5,000) shares with a total value of five hundred thousand (500,000) Saudi riyals (the "**Subsidiary**"). The Company also owns eighty-nine thousand, two hundred eighty-five (89,285) shares of the Saudi Financial Lease Registration Company, representing about 2.38% of the capital which totals thirty-seven million, five hundred thousand (37,500,000) Saudi riyals (investment in the shares of the Saudi Financial Lease Registration Company under the Financial Lease Law). With regard to the Company's ownership of the shares of the Saudi Financial Lease Registration Company, see Section (4.2.3) "**Saudi Financial Lease Registration Company**". The following diagram shows the structure of the Company and its Subsidiary:

Figure 1: Diagram showing the structure of the Company and its Subsidiary

4.2.2 Amlak International for Real Estate Development

Amlak International for Real Estate Development was founded on 05/11/1432H (corresponding to 03/10/2011G) as a limited liability company registered under Commercial Registration No. 1010317413 dated 06/11/1432H (corresponding to 04/10/2011G) and under SAGIA Real Estate Investment License No. 10312400386803 dated 05/03/1440H (corresponding to 13/11/2018G). Its headquarters is located in Riyadh, and it is equally owned by two Directors (Abdullah Ibrahim Sulaiman Al-Howaish and Abdullah Saleh Abdullah Kamel). On 29/07/1439H (corresponding to 15/04/2018G), all of the owners' shares, which totaled 5,000 shares with a value of five hundred thousand (500,000) Saudi riyals, were waived to the Company.

The following table shows the ownership structure of Amlak International for Real Estate Development as of the date of this Prospectus:

Table (35): Ownership structure of Amlak International for Real Estate Development

Shareholders	No. of shares	Nominal value of shares (SAR)	Value of shares (SAR)	Ownership (%)
Amlak International for Real Estate Development	5,000	100	500,000	100%
Total	**5,000**	-	**500,000**	

Source: The Company.

The main activities of Amlak International for Real Estate Development include selling, purchasing and leasing real estate and land for the purpose of holding real estate financing assets. However, the Company does not engage in any commercial activity at present, nor does it have any employees. The activity of Amlak International for Real Estate Finance is limited to registering the largest portion of the title deeds of properties financed under its name.

4.2.3 Saudi Financial Lease Registration Company

The Saudi Financial Lease Registration Company was established as a closed joint stock company under Commercial Registration No. 1010612415 dated 03/02/1439H (corresponding to 23/10/2017G), and its headquarters is located in Riyadh. The Company's activity includes registration of finance lease contracts and amendments thereto under SAMA Approval No. 381000124076 dated 23/12/1438H (corresponding to 14/09/2017G).

4.3 Company History

The following table shows the Company's prominent developments since its incorporation until the date of this Prospectus.

Table (36): Prominent Developments of the Company

Date	Prominent Developments of the Company
2007G	– The Company was founded as a closed joint stock company under the name "Amlak International for Real Estate Development and Finance Company" with a capital of SAR 1,000,000,000 in Riyadh. – Launch of the Retail Ijara Program – Launch of the Corporate Ijara Program – Opening of the Riyadh branch
2008G	– Expansion of the Company's business to include the Western Region and Eastern Region – Realization of profits one year after the Company's establishment
2009G	– Provision of the off-plan sale product as the first product of its kind in the Kingdom – Growth of the financing portfolio by 45%
2010G	– Growth of the financing portfolio by 35% – Awarded prize for the best program for real estate finance and development
2011G	– Growth of the financing portfolio by 42% – Awarded Developer Real Estate Finance Program Prize
2012G	– Establishment of the Treasury Management Department – Value of the financing portfolio reaches SAR 1,000,000,000
2013G	– Growth of the financing portfolio by 30%

Date	Prominent Developments of the Company
2014G	– The first to obtain a license from SAMA as a real estate finance company – Establishment of a system to issue immediate approvals via the Internet, considered the first of its kind in the Kingdom of Saudi Arabia
2015G	– Financing contracts reach over one thousand (1,000) contracts – Awarded prize for the Best Corporate Real Estate Finance Program until 2014G
2016G	– First sale of a financing portfolio – Awarded prize for the Best Retail Real Estate Finance Program in Makkah in 2015G for the corporate sector – Awarded prize for the Best Developer Program in Makkah 2015G – Awarded prize for the best financing program for real estate development projects in Riyadh in 2015G for the corporate sector – Value of the financing portfolio reaches SAR 3,000,000,000
2017G	– Signed joint agreements with the Ministry of Housing and the Real Estate Development Fund
2018G	– Second sale of a financing portfolio – Unused credit facilities extended by banks valued at SAR 1,460,000,000
2019G	– Third sale of a financing portfolio – Launch of the Temenos 24 financing system

4.4 Vision, Mission and Strategy

4.4.1 Vision

To be the Sharia-compliant real estate financier of choice for individuals and companies.

4.4.2 Mission

- Offer our customers innovative, value-added financial solutions based on a long-term relationship built on confidence and mutual benefit.
- Maximize the sustainable value of our shareholders’ investments, by balancing economic rewards and risks.
- Recognize our people as a treasured resource, and act as a catalyst to unlock their potential and expand personal horizons.
- Promote constructive participation to meet society’s aspirations for real estate ownership.

4.4.3 Values

The Company adopts distinguished corporate values, through which it seeks to achieve its objectives as follows:

- **Innovation**: Proactively changing, reinventing and evolving, to stay relevant in an ever-changing marketplace
- **Leadership**: Being the standard-bearer in each of the business segments we operate in, offering an unsurpassed value proposition to meet and exceed customer needs
- **Trust**: Maintaining strong and enduring relationships with all stakeholders, based on transparency, mutual respect and fair play.
- **Competence**: Developing market-leading capabilities by being professional, inclusive and meritocratic
- **Ownership**: Being accountable to customers, shareholders, employees and societies, in pursuit of balanced and sustainable returns and growth

4.4.4 Strategy

Amlak International for Real Estate Finance aims to be a leading provider of Sharia-compliant real estate financing services reviewed and approved by the Company’s Sharia Committee, and to achieve balanced and steadily increasing revenues, thus establishing its leading position within the real estate finance industry in the Kingdom of Saudi Arabia. As a driver of its success, the Company has an experienced team that implements the Company’s strategy, with stable performance and high productivity.

The Company’s strategic objectives are based on the following initiatives:

Digital and technical transformation

Amlak International invests in developing information technology infrastructure to expand the capacities of current systems and software and install the systems and software needed to improve the Company's business capacity, mainly targeting of transactions and internal operations, customer services, risk management, governance and, last but not least, data and information management.

The Company decided to install the Islamic financing management system Temenos 24, which was launched during the first quarter of 2019G. This system enables Amlak to facilitate and accelerate financing operations, promote efficiency and quality and increase customer satisfaction. In addition, it detects fraud and money-laundering operations, which will enable Amlak International to gain competitive advantages in the real estate financing market.

Capital structure management

The Company's business model is to build effective capital and maximize profit margins. As such, the Company has been looking for other sources of long-term financing, based on the belief that one of the key factors of success is to have a capital structure based on several financing channels. The Company has, therefore, begun to focus on leveraging government initiatives (such as purchasing financing portfolios and supporting real estate finance for individuals) to meet its ambitions for sustainable development.

Cooperation with government and private sectors

The Company's business with government entities and sectors is a key strategic factor for the Company. Given the per capita income and the Kingdom's initiatives to overcome the difficulties faced by individuals in owning their first home, the Company sees opportunities to contribute by developing new real estate financing products and its existing financing products in line with the requirements of the mortgage and real estate finance market. Among the new and improved products that the Company seeks to launch is a flexible premium product, a payment of dividends only feature, and a self-build product, which is currently in the final stages of preparation. The Company also participates in the subsidized financing programs provided by the Ministry of Housing, including the financing of finished units and the financing of units under construction.

Corporate sector development

In view of the increasing focus on supporting SMEs in the Kingdom, the Company is currently increasing its target sectors of the SME segment, taking into account the growing sectors with acceptable risk levels. This is in addition to targeting companies and investors looking for real estate financing to expand and increase their investments.

Risk management

Proper credit portfolios are the vital driver of the Company's success. Due to the current economic difficulties and challenges, the continuous development and improvement of the risk management business model by investing in systems and infrastructure, human resources and developing risk management policies and procedures are crucial to maintain the creditworthiness of the portfolio.

Human resources development and support

Finding, recruiting and retaining talent is one of the Company's priorities. The Company invests in its human resources by providing a positive work environment, supporting career development opportunities, and supporting reward programs based on performance and merit. The Company is one of the first non-bank financial institutions to implement a program to grant shares to employees.

Continuous development of customer service

Customer service is one of the main advantages of the Company's products. The development and improvement of customer services are a key factor in the Company's position among its competitors. According to the latest study in 2018G, customer satisfaction was over 80% for the Company's individual and corporate sectors. However, the goal is to reach over 85% in the coming years, so the Company's focus will be on:

- Reducing the number of days for implementing financing operations

- Developing and improving customer services
- Developing and improving electronic services

4.5 Competitive Advantage

One of the largest real estate financing companies

Amlak International is one of the largest real estate financing companies in the Kingdom in terms of revenues, profits and financing portfolio. The Company achieved revenues and profits in the year ended 31 December 2018G amounting to SAR 267.1 million and SAR 97.6 million respectively, with financing assets amounting to SAR 3,090.7 million as of 31 December 2018G. As of 31 December 2018G, Amlak International's market share was 29.8% of the total financing assets of real estate financing companies. Over the medium-term, it is difficult for new real estate financing companies to build a financing asset portfolio with a size similar to that of the Company. Due to its size, Amlak International will be well positioned to compete in the changing real estate market.

A sound and strong financial position

The Company has sufficient financing capacity from banks to finance its future operations. The credit limits amounted to over SAR 3 billion at the end of 2018G. The debt-to-equity ratio (leverage) was 1.77 times in the same period. This enables the Company to complete its expansion plans without additional financing from shareholders and has also given the Company the ability to pay dividends to shareholders at a high rate in the past years, as the dividends during 2019G amounted to 70% of the net income announced by the Company in 2018G.

In the future, the Company is also considering diversification of financing sources through selling financing portfolio options as well as the available options such as issuing sukuk or obtaining syndicated loans. It is also taking precautionary measures to hedge against an increase in borrowing rates by monitoring the rates of SIBOR and derivatives.

A modern and efficient financing platform

The Company has a regulatory and technically modern financing platform. This platform allows the Company to issue its financing decisions in a period ranging from one week to one month. Most competitors currently take more time to issue financing decisions.

As to the regulatory aspect, this platform contributes to increased efficiency and productivity. As to the technical aspect, this platform has systems that assist with examining customer requests, recording internal approvals, managing customer portfolios and archiving their data in line with the regulations issued by the supervisory bodies. The Company is upgrading its technical system, which supports the growth of its operations while improving the profit margin. As of 30 June 2019G, the Company had 1,236 customers and 1,367 contracts. The current platform can accommodate 100,000 customers without adding any substantial investment in the financing system or assets such as equipment and devices.

Strong and strategic relationships

Since its establishment, the Company has strong relationships with most local banks, the Saudi Real Estate Financing Company and relevant government entities. These relationships represent a substantial competitive advantage compared to new competitors in the sector. The real estate financing sector is characterized by high barriers for entry. Extensive and intensive institutional relationships are required to facilitate and grow the Company's business.

The Company's relationship with the banking sector contributes to reducing the cost of loans through the optimal use of the financing sources available to the Company. The Company's relationships with these institutions help to finance its business flexibly. As of 30 June 2019G, the Company was using 55.5% of the total loans available thereto.

A Senior Management Team with extensive experience

Our Senior Management Team consists of executives with experience in the field of finance with an average experience of approximately 18 years in addition to a proven track record in financial and operational improvements. Many of our management team members have occupied senior positions in other financial companies.

The Senior Management Team has demonstrated its ability to adapt to changing finance market conditions. It has developed its ability to grow the Company's financing portfolio, manage risk and maintain dividend yield for shareholders. Moreover, the Executive Management owned approximately 0.81% of the Company's shares prior to the Offering, and will own approximately 0.57% of the Company's shares after the Offering. This creates a significant alignment of interests between the Company's Management and the shareholders of the Company. The Company will continue its policy to pay part of the remuneration of the Senior Management in the form of shares. We believe that the Senior Management Team's experience and administrative directions are key factors contributing to our operational performance.

The Senior Management Team has experience in managing the Company during the recent economic crisis and through multiple economic courses. This is one of the competitive advantages of the team, taking into account the changes and competition in the real estate market.

Unique brand

The Company has a distinctive brand as Amlak International has spread throughout the Kingdom due to its history as a provider of Sharia-compliant real estate financing services to its individual and corporate customers.

4.6 Company's Activities

The Company's main activity is to engage in the real estate finance business for companies and individuals in accordance with the Companies Law, the Law on Supervision of Finance Companies and its Implementing Regulations, the relevant regulations and the rules and instructions issued by the competent authorities. As part of the real estate mortgage law, the Company is in the process of terminating its investment-related business.

Customers

Corporate customers

This segment consists of customers from local companies and high net worth individuals. Financing contracts for this segment range from SAR 5.0 million to SAR 80.0 million with a financing period of up to five years in most cases.

Table (37): Corporate customers

Corporate customers	As of 31 December 2016G	As of 31 December 2017G	As of 31 December 2018G	As at 30 June 2019G
Percentage of corporate customers out of net financing portfolio	69.9%	68.2%	68.0%	68.8%

Source: The Company.

Individual customers

This segment consists of individual customers. The Company is allowed to finance individuals, including citizens as well as residents, if they obtain the necessary approvals from the relevant authorities. In 2018G, the percentage of citizens in this customer segment reached 97.0%. Financing contracts for this segment range from SAR 0.3 million to SAR 5.0 million with an average financing period of 13 years.

Table (38): Individual customers

Individual customers	As of 31 December 2016G	As of 31 December 2017G	As of 31 December 2018G	As at 30 June 2019G
Percentage of individual customers out of net financing portfolio	30.1%	31.8%	32.0%	31.2%

Source: The Company.

Table (39): Number of the Company's customers by category

Number of customers	As of 31 December 2016G	As of 31 December 2017G	As of 31 December 2018G	As at 30 June 2019G
Corporate customers	104	118	124	132
Individual customers	914	959	1,020	1,104
Total	**1,018**	**1,077**	**1,144**	**1,236**

Source: The Company.

Table (40): Geographical distribution of the Company's customers by region as of 30/06/2019G

Region	Net financing portfolio size (SAR million)	Percentage
Central Region	2,533.6	82.2%
Eastern Region	349.2	11.3%
Western Region	200.4	6.5%
Total	**3,083.2**	**100%**

Source: The Company.

As of the date of this Prospectus, the Company has no activity outside the Kingdom of Saudi Arabia and does not have any significant new products or activities that are not disclosed in the Prospectus.

Financing products

The Company's current activities can be summarized as providing a number of Sharia-compliant financing products through review and approval of the Company's Sharia Committee.

Murabaha

A financing product designed to finance individual and corporate who wish to purchase property from a third party. The Company purchases the property from its owner and then sells it to the customer in installments with a specified profit margin fixed throughout the financing period under the Murabaha contract. The title deed is registered under the name of the customer and mortgaged to the Company for the financing amount as a guarantee of the customer's payment of the financing installments. Upon complete payment of the full financing installments, the mortgage is removed.

Table (41): Percentage of Murabaha contracts

	As of 31 December 2016G	As of 31 December 2017G	As of 31 December 2018G	As at 30 June 2019G
Percentage of Murabaha contracts out of the Company's net contract assets	14.0%	8.4%	3.5%	2.8%
Percentage of Murabaha contracts revenue out of the Company's total revenues	15.0%	11.2%	6.2%	3.0%

Source: The Company. For more information, see Table (96) and Table (137).

Table (42): Percentage of Murabaha contracts for corporate customers

	As of 31 December 2016G	As of 31 December 2017G	As of 31 December 2018G	As at 30 June 2019G
Percentage of Murabaha contracts for corporate customers out of the Company's net contract assets	13.9%	8.3%	3.5%	2.8%
Percentage of Murabaha contracts revenue for corporate customers out of the Company's revenues*	14.4%	10.8%	6.0%	2.9%

Source: The Company. For more information, see Table (8), Table (96) and Table (137).

*Income fees not included.

Table (43): Percentage of Murabaha contracts for individual customers

	As of 31 December 2016G	As of 31 December 2017G	As of 31 December 2018G	As at 30 June 2019G
Percentage of Murabaha contracts for individual customers out of the Company's net contract assets	0.1%	0.1%	0.0%	0.0%
Percentage of Murabaha contracts revenue for individual customers out of the Company's revenues*	0.1%	0.1%	0.1%	0.0%

Source: The Company. For more information, see Table (8), Table (96) and Table (137).

*Income fees not included.

Ijara

A financing product designed to finance individual and corporate customers who wish to purchase real estate from a third party or a customer. The Company purchases the property from the owner (a third party or customer), registers the title deed in the name of the company (the financier) and then leases the property to the customer (the borrower) for a certain period in return for lease payments with a promise given to the customer to own the property at the end of the lease term under the Ijara contract. At the end of the lease term and upon full payment of the lease payments, the title to the property is transferred, with the title deed conveyed to the customer as a donation in return for payment of the outstanding rent. This product includes corporate Istisna'a contracts. It is a financing product designed to finance real estate projects, where a corporate customer is financed by the Company that purchases real estate units under construction from the developer through an Istisna'a purchase contract. The Company leases the real estate to the developer under an Ijara mawsofa fi athemmah, with a promise to grant it to the developer. The project deed is registered in the name of the finance company as collateral for fulfilment of financial obligations and payment of rent installments by the developer. Upon payment by the developer of all rent installments, the ownership and title deed of the real estate unit is transferred to the developer by way of donation.

Table (44): Percentage of Ijara contracts

Percentage of Ijara contracts	As of 31 December 2016G	As of 31 December 2017G	As of 31 December 2018G	As at 30 June 2019G
Percentage of Ijara contracts out of the Company's net contract assets	82.1%	87.9%	93.9%	95.1%
Percentage of Ijara contracts revenue out of the Company's total revenue	81.0%	84.3%	89.1%	91.6%

Source: The Company. For more information, see Table (8), Table (96) and Table (137).

Table (45): Ijara for corporate customers

	As of 31 December 2016G	As of 31 December 2017G	As of 31 December 2018G	As at 30 June 2019G
Percentage of Ijara contracts for corporate customers out of the Company's net contract assets	56.0%	59.9%	64.6%	66.0%
Percentage of Ijara contracts revenue for corporate customers out of the Company's revenues*	54.0%	54.0%	60.3%	62.6%

Source: The Company. For more information, see Table (8), Table (96) and Table (137).

*Income fees not included.

Table (46): Ijara for individual customers

	As of 31 December 2016G	As of 31 December 2017G	As of 31 December 2018G	As at 30 June 2019G
Percentage of Ijara contracts for individual customers out of the Company's net contract assets	26.1%	28.0%	29.4%	29.1%
Percentage of Ijara contracts revenue for individual customers out of the Company's revenues*	25.4%	28.6%	27.2%	27.8%

Source: The Company. For more information, see Table (8), Table (96) and Table (137).

*Income fees not included.

Ijara mawsofa fi athemmah for individual customers

A financing product designed to finance properties under construction for individuals. Under such product, a property is purchased from the owner (the developer) through an Istisna'a contract in installments related to the construction stages and the percentage of construction completion. Then, the property is leased to the customer under an Ijara mawsofa fi athemmah contract with a promise given to the customer to own the property at the end of the lease term. The title deed of the property is conveyed to the company after the last payment of the unit purchase is made upon completion of the property and issuance of the deed. The customer pays a pre-delivery advance payment during the financing period, to be accounted for as a rent payment upon receipt of the unit, and continues to make rent payments until the end of the agreed lease period. The title to the property is then transferred to the customer, with the title deed of the property being conveyed thereto by way of donation in return for payment of the outstanding rent.

Table (47): Percentage of Ijara mawsofa fi athemmah contracts for individual customers

Percentage of Ijara mawsofa fi athemmah contracts for individual customers	As of 31 December 2016G	As of 31 December 2017G	As of 31 December 2018G	As at 30 June 2019G
Percentage of Ijara mawsofa fi athemmah contracts out of the Company's net contract assets	3.9%	3.7%	2.6%	2.1%
Percentage of Ijara mawsofa fi athemmah contracts revenue out of the Company's total revenues*	2.8%	2.9%	2.4%	1.7%

Source: The Company. For more information, see Table (8), Table (96) and Table (137).

*Income fees not included.

Sale of portfolios

One of the company's activities is to sell financing portfolios when there are profitable opportunities enabling the Company to reduce its financing burden and reinvest in the Company's financing activities. The sale of portfolios is one of the options available for additional financing sources for the Company. As of this date, portfolios have been sold on a non-recourse basis. The portfolios sold as of 31/07/2019G consist of one transaction with the Saudi Investment Bank amounting to SAR 10.6 million on 17/5/2016G, which was implemented on 28/6/2016G, two transactions with the Saudi Real Estate Refinance Company related to the sale of a financing portfolio amounting to SAR 104.7 million on 10/05/2018G, which was implemented on 11/5/2018G, and another transaction related to the sale of a financing portfolio amounting to SAR 120.6 million on 06/03/2019G.

Joint investments

Since its incorporation, one of the Company's objectives has been to contribute to the development of the real estate sector. Thus, the Company's Management decided to enter into several partnerships for several real estate projects with real estate developers. These projects have achieved success, represented in the rapid sale of units and revenues that positively affected the Company's profitability. In 2014G, after it became subject to SAMA supervision, the Company was no longer allowed to engage in investment activities. The Company has obtained SAMA approval to continue and exit the existing projects. The Company expects to exit these investments by the end of 2020G. The Company now has one investment, as shown in Table ([48]), as of 30/06/2019G. The Company has a stock of real estate resulting from the exit from previous investments amounting to SAR 80.9 million as of 30/06/2019G. For more information, see Section (6.4.7) "**Prepaid Expenses and Other Assets**".

Table (48): Joint investments as of 30/06/2019G

Investment	Ownership %	Current investment value (SAR Thousand)
Dar and Emaar - Rahba	90%	5,050

Source: The Company and financial statements as of 30 June 2019G.

4.7 Income sources and financing products

Table (49): Income sources and financing products

Income sources (SAR million)	Year ended 31 December 2016G	Year ended 31 December 2017G	Year ended 31 December 2018G	Six-month period ended 30 June 2019G
Financing contract revenues	257	262	259	133
Finance transaction fees and relevant asset valuation	3.0	4.4	6.1	3.1
Investments	13.3	9.4	0.3	0.6

Source: The Company.

Financing contract revenues

Total revenues of Murabaha, Ijara and Ijara mawsofa fi athema contracts from real estate finance.

Murabaha contract revenues

Murabaha contracts accounted for 3.0%, 6.2%, 11.2% and 15.0% of the Company's total revenues in the six-month period ended 30 June 2019G and the years 2018G, 2017G and 2016G respectively.

Ijara contract revenues

Ijara contracts accounted for 91.6%, 89.1%, 84.3% and 81.0% of the Company's total revenues in the six-month period ended 30 June 2019G and the years 2018G, 2017G and 2016G respectively. The Company provides four types of Ijara contracts:

- **Ijara contract with fixed profit rate**: Long term financing where the profit margin is fixed and the payment amount is fixed for the entire financing period
- **Ijara contract with variable profit rate**: Short-term financing, where the profit margin depends on SIBOR
- **Ijara contract with variable profit rate limited by a ceiling**: Financing in which the profit margin depends on SIBOR with a ceiling, so that the payment amount does not exceed a certain amount
- **Ijara contract with a minimum variable profit rate**: Financing in which the profit margin is based on SIBOR, with a minimum so that the amount of the payment does not fall below a certain amount for the entire financing period

Revenues of Ijara mawsofa fi athemmah contracts

Ijara mawsofa fi athemmah contracts accounted for 1.7%, 2.4%, 2.9% and 2.8% of the Company's total revenues during the six-month period ended 30 June 2019G and the years 2018G, 2017G and 2016G respectively.

Finance transaction fees and relevant asset valuation

Transaction fees consist of administrative fees, property valuation fees, early repayment fees, early partial repayments or early total repayments, and management fees for sold portfolios. Fees may vary depending on the contract, as follows:

Administrative fees for the retail sector

Fees that are collected from the customer for the performance of a credit study of the financing application. Fees are payable when the financing offer is accepted by the customer. (It should be noted that fees for the retail sector are subject to SAMA instructions, which stipulate that fees, commissions and administrative service costs collected by the finance company from the beneficiary may not exceed 1% of the financing amount or SAR 5,000, whichever is lower).

Real estate valuation fees for the retail sector

Fees collected by the Company for real estate valuation of properties in the retail sector. Such fees are payable when the financing offer is accepted by the customer and the valuation of the property begins. (It should be noted that fees for the retail sector are subject to SAMA instructions, which stipulate that fees, commissions and administrative service costs collected by the finance company from the beneficiary may not exceed 1% of the financing amount or SAR 5,000, whichever is lower.)

Administrative fees and real estate valuation fees for the corporate sector

Fees collected by the Company to study, analyze and execute applications for financing and real estate evaluation for the corporate sector. They may exceed 0.5% of the financing amount per application. Such are fall payable when the financing offer is accepted by the customer and the valuation of the property begins.

Early partial repayment or early total repayment fees

The cost of reinvestment collected by the Company in the case of early partial repayment or early total repayment after the passage of two lease periods from the date of the contract, provided the cost of reinvestment not exceed the term cost of the payments for the three months subsequent to the last lease payment due before the customer applied for early partial repayment or early total repayment according to the Schedule of Rental Payments.

Fees for the management and maintenance of financing contracts for sold portfolios

Fees collected by the Company for the management and maintenance of the financing contracts of the sold portfolios, which might exceed 1.00% of the remaining amount of the original financing of the sold portfolios. These fees are collected on a monthly basis.

Revenues from joint investments

These revenues represent the Company's share of the net profit from joint ventures resulting from the sale of real estate units in those projects. As mentioned previously, the Company seeks to exit these joint investments by the end of 2020G.

4.8 Future Plans and Initiatives

Control of expenses and enhancement of efficiency

The Company is always keen to set a budget for its costs and expenses to enable it to control its disbursals by developing budget control systems and procedures while seeking methods to improve the efficiency of its operations, as well as to upgrade its network of technical systems to maximize operational capacity and performance efficiency to give customers more added value and qualitative advantages.

Development and improvement of risk management

The Company always seeks to improve and develop its risk management through continuous training and finding the latest developments in the field of financial risk management which help the Company's risk management department to make better risk decisions at lower costs.

Improve customer satisfaction rates

One of the company's main objectives is to improve customer satisfaction and meet customer requirements. The Company provides corporate with specialized relationship managers with expertise in real estate finance to meet their needs. The Company also provides individual customers with an integrated and specialized call center available at most times of the day to receive customer inquiries and observations in a highly efficient and professional manner.

Some of the advantages the Company offers to its customers include the ability to perform many operations and services themselves through the self-service portal and the Company's ability to receive inquiries and customer requests through the Company's website. In addition, Amlak has a number of branches in the Central Region, Western Region and Eastern Region.

To measure customer satisfaction, customers are contacted after the completion of financing to measure customer satisfaction with the service provided. A customer satisfaction survey on the quality of services provided is conducted annually.

Increase brand awareness

Amlak International is keen to enhance its brand recognition through many modern and advanced activities and practices; Amlak International seeks to have its brand recognized through the quality of products and financing solutions provided to achieve its vision to be the first choice in real estate finance. In addition, it seeks to make its financing solutions go beyond the expectations of the Company's customers by finding competitive advantages of the Company's products.

Increasing brand awareness is one of the most important indicators to measure the Company's reach to the largest possible segment of customers. Participating in exhibitions and seminars specialized in real estate finance is one of the keys means the Company focuses on to increase brand awareness, as well as the conclusion and announcement of strategic agreements with several bodies and institutions specialized in real estate finance.

4.9 Company Departments and Divisions

Strategy and Marketing Department

The Strategy and Marketing Department focuses on supporting all segments of Amlak International for Real Estate Finance by setting the Company's objectives and segments for the long and short terms, as well as developing and monitoring the optimal business plans to achieve such goals. Furthermore, the Department reviews and restructures the Company's policies and procedures and aligns them with the Company's business strategies and plans.

It is also concerned with the modification and development of the Company's current products, and it introduces new products in line with the developments of the real estate finance market and target groups and segments. As a result, the Department starts to design, develop and manage marketing campaigns aimed at reaching the relevant segments and groups and increasing recognition of the Company's brand in the Kingdom.

Corporate Customer Department

The Corporate Customer Department provides a wide variety of Sharia-compliant financing products and solutions through review and approval by the Company's Sharia Committee, and it targets corporate customers' requirements. It also develops a strategy for the corporate segment to establish long-term relationships with large and medium-sized enterprises and high net worth individuals by developing and delivering prime and appropriate solutions. The Department also provides the highest standards of customer relationship management, with the satisfaction of corporate customers reaching 80% in 2018G, according to a survey conducted by the Middle East Studies Centre. The Corporate Segment was named the Best Real Estate Financing Program in 2016G at RESTATEX (Riyadh Real Estate, Housing & Urban Development Exhibition).

Retail Customer Department

The Retail Customer Department, with a dedicated team, seeks to meet the needs of customers from the retail segment by developing and providing prime residential financing solutions commensurate with income levels, taking into account general circumstances and living conditions. The Department also provides a range of services added to solutions and products. A retail inquiry system was launched to serve individuals around the clock, as the Department is keen to enhance customer satisfaction, which was 84% in 2018G, according to a survey conducted by the Middle East Studies Centre. The retail segment accounted for 29.7% of the Company's total revenues for the year as of 31 December 2018G and 31.8% of the Company's total revenues for the six-month period ended 30 June 2019G. The retail sector is also keen to engage in those projects offered by the Ministry of Housing through the diversification of the financing portfolio of the retail segment, which accounted for 31.2% of the total net financing portfolio as of 30 June 2019G.

Investment Department

In the past, the Company's Investment Department was investing in a number of residential real estate projects through multiple partnerships with a number of real estate developers in the Kingdom. Pursuant to the relevant applicable laws, the Real Estate Finance Law and the license granted by SAMA in 2014G, the Company has complied with ceasing capital investments in real estate projects and is currently completing those projects from which it is expected to exit by the end of 2020G. This Department will be closed and the staff will be transferred to other sections at the Company after the complete liquidation of projects and investments.

Credit & Risk Management Department

The Credit & Risk Management Department implements the Company's plans for credit risk management and related activities, such as corporate and retail credit assessment, documentation of credit relationships, bookkeeping of contracts and collection management. The risk segment also performs cybersecurity functions to create a safe information and system environment and manages the business continuity plan in case of any obstacles. The Department also ensures the quality of the credit portfolio and the management of the general risk framework, including identification, measurement and remedy of risks. This includes the management of operational, market, legal, reputation and liquidity risk, under the supervision of the Board of Directors and its Committees, as well as internal risk committees, contributing to the achievement of the Company's objectives and meeting the requirements of SAMA.

The Company manages exposure to credit risk, which is the risk that one party will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in lending activities that lead to Murabaha, Ijara, Ijara mawsofa fi athemmah receivables. The Company assesses the probability of default of counterparties using internal rating mechanism. This is done for corporate only. The Company attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties.

The Company's risk management policies are designed to identify, set appropriate risk limits, and monitor the risks and adherence to limits. Actual exposures against limits are monitored on regularly basis. Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographical location. The Company seeks to manage its credit risk exposure through diversification of financing activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or business. Management monitors the market value of collateral obtained during its review of the adequacy of the impairment allowance for credit losses. The Company regularly reviews its risk management policies and systems to reflect changes in markets products and emerging best practice.

Finance, Operations and Information Technology Department

The Department consists of three divisions:

Finance Division

The Finance Division assumes a number of responsibilities, including credit facilities management, financing decisions, hedging and cash management, and implementing and reconciling the financial procedures of the Company. It coordinates any operations related to the Company's capital markets. At the procedural level, the Finance Division has achieved an improvement in performance and quality of reports on control methods and a focus on the completion of automation of payments, reconciliations and bank accounts. It also prepares financial statements and administrative and supervisory reports.

Operations Division

The Operations Division is responsible for supporting the operations related to the registration, management and control of the Company's current and prospective customer information, and the implementation of after-sales services to customers, including the analysis, review and update of customer and financing data. It relies on systems and procedures that contribute to the monitoring of operations related to the quality of inputs and outputs of customer data.

Information Technology Division

The IT Division focuses on continuous improvement by upgrading the Company's systems, with a commitment to adhere to and provide customer information protection standards and keep abreast of the needs of the Company in terms of reports and information needed to run its business. This Division overcomes many of challenges, most notably strengthened information security, one of the most prominent challenges facing business sectors. It is installing a new customer financing management system at the Company at the end of the first half of 2019G, which will contribute to increased performance efficiency, enhanced ability to obtain reports to support quick decision-making, and facilitate the requirements of customers and beneficiaries for information.

Administrative and Human Resources Department

The role of the Administrative and Human Resources Department is to develop strategic and operational plans to attract, develop and retain appropriate Saudi talents and to provide administrative support to all segments of the Company. It also carries out development programs and projects related to improving technical and leadership skills and motivating employees to achieve the highest results. The Department has always sought to achieve Saudization rates in all sections of the Company, 87% as of 30 June 2019G overall. Furthermore, it measures employee satisfaction, which was 87% at the end of 2018G, and designs the necessary initiatives to improve the work environment and increase job satisfaction.

Governance and Legal Department

The Governance and Legal Department is responsible for framing the Company's governance under the Companies Law, financing laws and Regulations, and SAMA circulars, regulations and controls. The Governance Department will also be responsible for the application of the CMA's Laws and Regulations (after the Company's Shares are listed on Tadawul).

The Legal Department, administratively reporting to this Department, is entrusted with providing the necessary legal advice to all divisions and departments of the Company according to the nature of daily business. It manages and follows up the cases assigned to it and represents the Company before the judicial authorities. This includes cases of financing and non-financing contracts.

The Legal Department also performs the work of the Sharia Board Secretariat as a technical and administrative body established to support the Sharia Board in achieving its objectives and performing its work through a comprehensive study of the Company's transactions and activities, and preparation and submission thereof to the Sharia Board for review and the necessary actions. It also drafts all decisions of the Sharia Board, monitors and reports them to the Company's departments, and documents and archives the same. It checks that all the Company's activities and executive procedures comply with Islamic Sharia according to the decisions issued by the Company's Sharia Board.

Governance and Legal Department is responsible for supervising the liquidation of the real estate related to the defaulted clients as follows:

- **defaulted Ijara customers**: After the issuance of the enforcement order, the company has the right to terminate the Ijara contract, vacate the property and then sell it directly as the owner of the property and cover all or some of the defaulted payments from the sale proceeds.
- **defaulted Murabaha customers**: After the issuance of the enforcement order, the company has the right to execute the mortgage and sell the mortgaged properties through the enforcement court and cover all or some of the defaulted payments from the sale proceeds.

The company has several pending cases claiming the evacuation of properties in preparation for sale. For more details, please see Table (202) " **Summary of pending claims filed by the Company as of 31/07/2019G"** and Section (2-1-3) **"Risks Related to Execution on customers Guarantees**"

From January 2016G to the end of September 2019G, the number of properties the company sold after agreements with the defaulted customers reached 25 properties related to 10 defaulted clients with a total amount of SAR 105,550,779 and the number of defaulted clients that the company sold their properties through execution decisions reached 8 properties related to 3 clients with a total amount of SAR 14,181,093.

In 2018G, the amounts of real estate that the company sold after agreement with the defaulted clients amounted to SAR 26,795,958, which represents 15.3% of the total default amounts for the same period. As in the six-month ending in 30/06/2019G, the amount of real estate sold by the company after the agreements with the defaulted clients amounted of SAR 19,046,314 which represented 12.1% of the total defaulted amounts for the same period.

in the six-month ending in 30/06/2019G, the amounts of real estate that the company sold through execution decisions amounted of SAR 653,331 which represents 0.4% of the total default amounts for the same period. It should be noted that in 2018G, the company did not sell any real estate through execution decisions.

Compliance and Anti-Money Laundering Department

The Compliance and Anti-Money Laundering Department monitors all new laws or amendments thereto and translates these amendments and developments into the Company's internal policies and procedures, to ensure full compliance with the regulations and laws on financial crimes issued by the legislative authorities, especially those concerning combating money laundering and the financing of terrorism. During 2017G, the Company made a number of amendments to the internal policies and procedures to enhance the Company's compliance environment, particularly combating financial crimes in line with the changes to the laws and regulations governing the Company.

Given the supervisory requirements, the Compliance Department prepares reports that demonstrate the Company's compliance with the laws. These reports are submitted to the Audit Committee and then to the Board of Directors, including an assessment of the risks that the Company faces in terms of compliance and anti-money laundering and current processes and procedures. It also suggests any amendments or changes to such laws.

Given the Company's desire to develop and improve its human cadres, the Company managed to train most of its employees in areas of compliance, anti-money laundering and terrorist financing in 2017G. This had a positive impact on promoting a culture of compliance among employees. The money laundering and terrorist financing suspicion indicators were also reviewed, updated and circulated to the Company's employees to act thereon. The Department periodically reviews liabilities on an ongoing basis.

Internal Audit Department

The Internal Audit Department is part of the Company's internal control and governance framework. It has been assigned to review the Company's business and procedures and assess their compliance with the policies, controls and procedures established by the Board of Directors or its committees, as well as its role in assessing their compliance with the applicable regulations in the Kingdom.

The Company's Internal Audit Department follows established plans and policies to evaluate and improve the effectiveness of internal control, risk management and governance to ensure that they are all in line with best practices and standards by securing, advising and recommending a professional and objective framework, with a view to enhancing internal control and protecting the Company's assets.

In line with its mandated tasks, the Internal Audit Department provides the Audit Committee on a quarterly basis with reports containing observations and weaknesses regarding the implementation of internal control procedures. Moreover, it considers the potential impacts on the Company's business processes and transactions, with a focus on high and medium risk activities. Each report recommends a mechanism to deal with these observations in order to add value to the Company and improve its operations as well as to evaluate and improve the effectiveness of governance and risk management processes.

4.10 Latest Developments

Relocation of the Company's headquarters

In line with the expansion of the Company's business and the increased number of employees, and in order to provide the best working environment for them, the Company applied on 04/11/1439G (corresponding to 17/07/2018G) for a letter of no objection with SAMA to transfer the Company's headquarters to the new location in Riyadh, Takhassusi Street, Al Rabie District. The Company obtained a letter of no objection from SAMA on 29/01/1440H (corresponding to 10/10/2018G). Further, the Company submitted a notification letter to SAMA with the relocation notification. The Company has already transferred it's headquarters to the new location.

5. Ownership and Organizational Structure

5.1 The Company's Management

The Company has an organizational structure headed by the Board of Directors and supported by the Executive Management. Pursuant to Article (20) of the Company's Bylaws, the Company is managed by a board of directors consisting of nine (9) directors elected by the shareholders at the Ordinary General Assembly meeting for a period not exceeding three (3) years. Any director, whose membership in the Board has expired, may be re-elected, subject to the Companies Law, the Corporate Governance Regulations and the relevant applicable rules.

At its meeting held on 21/8/1439H (corresponding to 7/5/2018G), the Extraordinary General Assembly elected a board of directors for the session beginning on 4/6/2018G. The Board is composed of nine (9) directors, all non-executive, including three (3) independent directors.

In addition to the duties provided for in the Company's Bylaws, the main role of the Board of Directors is to approve the Company's strategic plans and main objectives as well as its implementation mechanisms, evaluate overall operational performance against the approved strategic plans and objectives, approve the quarterly and annual financial statements, establish internal control, governance, risk management and supervision systems, and endorse policies and procedures to ensure compliance with laws and regulations.

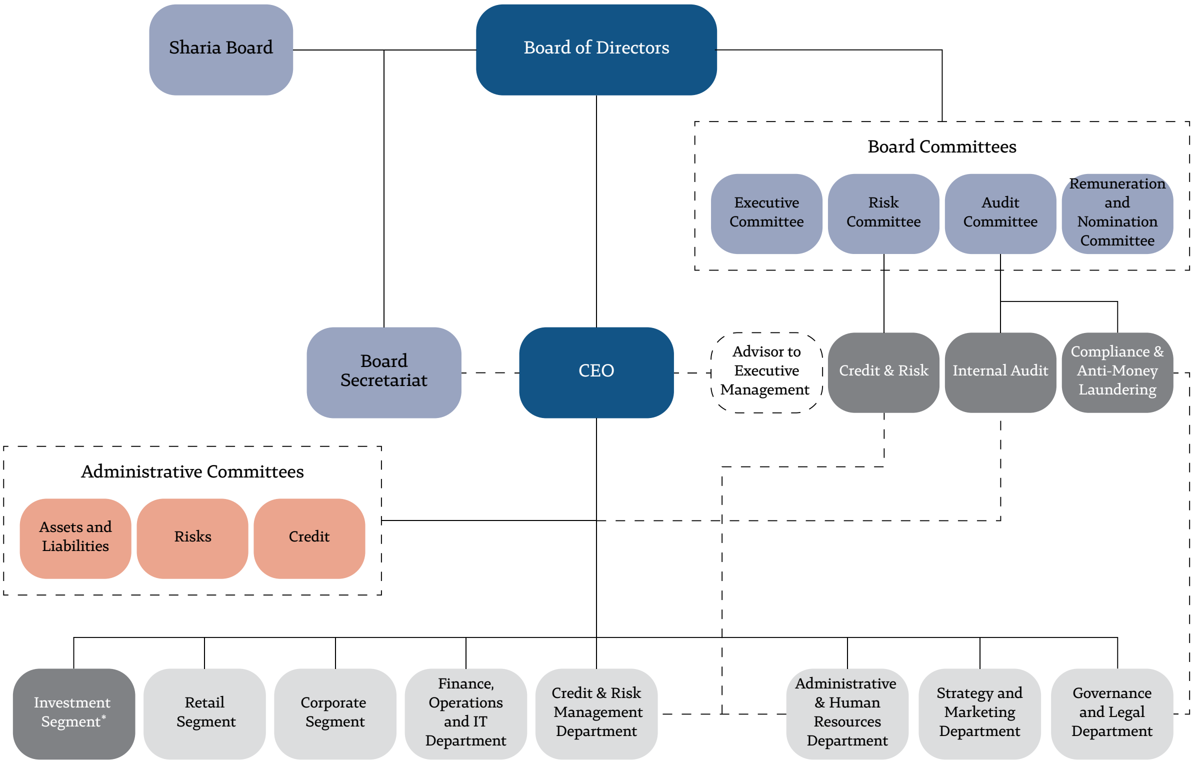
The Board has the following committees: The Audit Committee, whose members were appointed with the approval of the Extraordinary General Assembly at its above meeting, the Remuneration and Nomination Committee, the Executive Committee and the Risk Management Committee.

The Company's Executive Management consists of a team with extensive knowledge and experience to effectively and efficiently manage the Company, in line with the Board's directives. The CEO is responsible for the day-to-day operation of the Company in accordance with Board policies and directives, in order to achieve the strategic objectives approved by the Board of Directors.

5.2 Organizational Structure

The following chart sets out the Company's organizational structure.

Exhibit 2: Organizational structure of Amlak International for Real Estate Finance[8]



Source: The Company.

*Note: The Investment Department will be closed once the remaining investments are completed.

(8) Note: The Investment Department will be closed once the remaining investments are completed.

5.2.1 Current Shareholding Structure

5.2.1.1 Overview

The Company's current Share Capital is nine hundred six million (906,000,000) Saudi riyals divided into ninety million, six hundred thousand (90,600,000) shares with a fully-paid nominal value of ten (10) Saudi riyals per share.

The following table shows the Company's direct ownership structure before and after the Offering:

Table (50): The Company's direct ownership structure before and after the Offering

Shareholders	Pre-Offering				Post-Offering			
	Number of Shares	Nominal Value (SAR)	Direct Ownership (%)	Indirect Ownership (%)	Number of Shares	Nominal Value (SAR)	Direct Ownership (%)	Indirect Ownership (%)
The Saudi Investment Bank	29,000,000	290,000,000	32.01%	N/A	20,300,000	203,000,000	22.41%	N/A
Amlak Finance	23,750,000	237,500,000	26.21%	N/A	16,625,000	166,250,000	18.35%	N/A
Al Tawfeek Development House	13,000,000	130,000,000	14.35%	N/A	9,100,000	91,000,000	10.04%	N/A
Almakarim International for Real Estate Development	5,100,000	51,000,000	5.63%	N/A	3,570,000	35,700,000	3.94%	N/A
Aseer Company for Trading and Tourism	5,000,000	50,000,000	5.52%	N/A	3,500,000	35,000,000	3.86%	N/A
Al Bawarej International Development & Real Estate Investment Company	2,550,000	25,500,000	2.81%	N/A	1,785,000	17,850,000	1.97%	N/A
Sami Saeed Ali Al-Angari	2,550,000	25,500,000	2.81%	N/A	1,785,000	17,850,000	1.97%	N/A
Al-Nawasi Al-Arabia for Development and Advancement	2,550,000	25,500,000	2.81%	N/A	1,785,000	17,850,000	1.97%	N/A
Abdullah Ibrahim Sulaiman Al-Howaish	2,062,500	20,625,000	2.28%	N/A	1,443,750	14,437,500	1.59%	N/A
Zarabi Al-Arabia for Development and Advancement	1,250,000	12,500,000	1.38%	N/A	875,000	8,750,000	0.97%	N/A
Mohammed Abdulrahman Sulaiman Al-Farraj	750,000	7,500,000	0.83%	N/A	525,000	5,250,000	0.58%	N/A
Abdullah Khalid Abdullah Al-Melhem	750,000	7,500,000	0.83%	N/A	525,000	5,250,000	0.58%	N/A
Sulaiman Mohammed Sulaiman Al-Romaih	750,000	7,500,000	0.83%	N/A	525,000	5,250,000	0.58%	N/A
Abdulaziz Abdulrahman Abdullah Al-Modaimegh	750,000	7,500,000	0.83%	N/A	525,000	5,250,000	0.58%	N/A
Abdullah Turki Saad Al Sudairy	300,000	3,000,000	0.33%	N/A	210,000	2,100,000	0.23%	N/A

Shareholders	Pre-Offering				Post-Offering			
	Number of Shares	Nominal Value (SAR)	Direct Ownership (%)	Indirect Ownership (%)	Number of Shares	Nominal Value (SAR)	Direct Ownership (%)	Indirect Ownership (%)
Tawfiq Yahya Hassan Maafa	97,500	975,000	0.11%	N/A	68,250	682,500	0.08%	N/A
Saud Abdullah Abdulrahman Al Shathri	85,000	850,000	0.09%	N/A	59,500	595,000	0.07%	N/A
Nizar Saleh Ibrahim Al Suwaiyan	52,500	525,000	0.06%	N/A	36,750	367,500	0.04%	N/A
Osama Mirza Saleh Al-Khanzeri	50,000	500,000	0.06%	N/A	35,000	350,000	0.04%	N/A
Mohammed Habeeb Mohammed Al Salman	42,500	425,000	0.05%	N/A	29,750	297,500	0.03%	N/A
Abdullah Saad Ali Al Shathri	40,000	400,000	0.04%	N/A	28,000	280,000	0.03%	N/A
Ali Mohammed Zafir Alshashaa	40,000	400,000	0.04%	N/A	28,000	280,000	0.03%	N/A
Turki Otaibi Moaid Al Zahrani	27,500	275,000	0.03%	N/A	19,250	192,500	0.02%	N/A
Rashed Khalid Rashed Al Madyan	27,500	275,000	0.03%	N/A	19,250	192,500	0.02%	N/A
Khaled Ibrahim Mohamed Al-Aqeel	15,000	150,000	0.02%	N/A	10,500	105,000	0.01%	N/A
Omar Sulaiman Abdulaziz Abanomia	10,000	100,000	0.01%	N/A	7,000	70,000	0.01%	N/A
The Public	-	-	-	-	27,180,000	271,800,000	30.00%	-
Total	**90,600,000**	**906,000,000**	**100.00%**	**-**	**90,600,000**	**906,000,000**	**100.00%**	**-**

Source: The Company.

The following table shows the details of the Shareholders directly or indirectly holding 5% or more of the Company's Shares as of the date of this Prospectus:

Table (51): Shareholders directly holding 5% or more of the Company's Shares as of the date of this Prospectus

Shareholders	Pre-Offering			Post-Offering		
	Number of Shares	Nominal Value (SAR)	Direct Ownership (%)	Number of Shares	Nominal Value (SAR)	Direct Ownership (%)
The Saudi Investment Bank	29,000,000	290,000,000	32.01%	20,300,000	203,000,000	22.41%
Amlak Finance	23,750,000	237,500,000	26.21%	16,625,000	166,250,000	18.35%
Al Tawfeek Development House	13,000,000	130,000,000	14.35%	9,100,000	91,000,000	10.04%
Almakarim International for Real Estate Development	5,100,000	51,000,000	5.63%	3,570,000	35,700,000	3.94%
Aseer Company for Trading and Tourism	5,000,000	50,000,000	5.52%	3,500,000	35,000,000	3.86%

Source: The Company.

* Shareholding percentages are rounded.

Table (52): Shareholders indirectly holding 5% or more of the Company's Shares as of the date of this Prospectus

Shareholders	Pre-Offering			Post-Offering		
	Number of Shares	Nominal Value (SAR)	Ownership (%)	Number of Shares	Nominal Value (SAR)	Ownership (%)
Emaar Properties PJSC	10,685,817	106,858,170	11.79%	7,480,072	74,800,719	8.26%
Arabian Centers	7,264,308	72,643,080	8.02%	5,085,016	50,850,156	5.61%
Abdullah Saleh Kamel	7,125,690	71,256,900	7.87%	4,987,983	49,879,830	5.51%
Saleh Abdullah Kamel	6,500,550	65,005,500	7.18%	4,550,385	45,503,850	5.02%
PPA	5,121,587	51,215,872	5.65%	3,585,111	35,851,110	3.96%
GOSI	5,005,583	50,055,830	5.52%	3,503,908	35,039,081	3.87%

Source: The Company.

* Shareholding percentages are rounded.

Overview of Current Major Shareholders

A. The Saudi Investment Bank

The Saudi Investment Bank was incorporated as a Saudi joint stock company by virtue of Royal Decree No. M/31 dated 25 Jumada II 1396H (corresponding to 23 June 1976G) and commenced its operations in March 1977G. The share capital of the Bank is SAR 7,500,000,000, and it is listed on the Saudi Stock Exchange (Tadawul).

The Bank is engaged in providing banking services, including accepting deposits and providing financing services to its customers through its branches across the cities of the Kingdom.

Table (53): Major Shareholders of The Saudi Investment Bank

Name	Ownership (%)
GOSI	16.6%
PPA	13.9%

B. Amlak Finance

Amlak Finance PJSC ("the Company") was incorporated in Dubai, United Arab Emirates on 11 November 2000G as a private joint stock company in accordance with Federal Law No. 8 of 1984G, as amended, in the United Arab Emirates. The constituent meeting of shareholders held on 9 March 2004G approved the conversion of the company into a public joint stock company, mainly engaged in financing and investment activities such as Ijara, Murabaha, Mudaraba and Musharaka.

Table (54): Major Shareholders of Amlak Finance

Name	Ownership (%)
Emaar Properties PJSC	45.0%

C. Al Tawfeek Development House

Al Tawfeek Development House was incorporated as a limited liability company registered in Jeddah under Commercial Registration No. 4030160618 dated 21 Safar 1427H, and its memorandum of association is registered with the Jeddah Notary Public under Instrument (14), Volume 7/U/M No. 13 dated 23/12/1426H. The company's share capital is five hundred thousand (500,000) Saudi riyals.

The company is engaged in managing its subsidiaries or the companies in which it is a shareholder, providing them with the necessary support, investing its funds in shares, bonds, and securities, owning the real estate and movables required to carry out its business, providing loans, guarantees and financing to subsidiaries, owning industrial property rights such as patents, trademarks, franchises and other moral rights, utilizing and leasing the same to its subsidiaries or other companies and carrying out any business for any legitimate purpose in line with the nature of this company.

Table (55): Shareholding structure of Al Tawfeek Development House

Name	Ownership (%)
Saleh Abdullah Kamel	50%
Abdullah Saleh Kamel	50%

D. Almakarim International for Real Estate Development

Almakarim International for Real Estate Development was established as a limited liability company, registered in Jeddah under Commercial Registration No. 4030167646 dated 6 Safar 1428H (corresponding to 24 November 2007G) and its memorandum of association is registered with the Jeddah Notary Public under Instrument (198), Volume 10/U/M No. 197 dated 09/02/1428H. The company's share capital is five hundred thousand (500,000) Saudi riyals.

The company is engaged in the purchase of land for construction and investment through sale, purchase and lease for the benefit of the company, management, maintenance and development of real estate, operation of buildings for the Company, general contracting of buildings, postal services and advertising services.

Table (56): Shareholding structure of Almakarim International for Real Estate Development

Name	Ownership (%)
Arabian Centers	95%
Riyadh Centers Co. Ltd.	5%

E. Aseer Company for Trading and Tourism

Aseer Company was established by virtue of the Royal Decree No. M/78 dated 07/11/1395H (corresponding to 11/11/1975G) as the first Saudi multipurpose public joint stock company wholly owned by the private sector with a share capital of SAR 50 million. The company gradually increased its share capital to SAR 1,263,888,889.

Aseer Trading, Tourism and Manufacturing Co. is a multi-purpose company mainly operating in the following strategic sectors: food industries, electrical and electronic appliances, real estate development, construction materials and petrochemicals.

Table (57): Key shareholders of Aseer Company for Trading and Tourism

Name	Ownership (%)
Dallah Albaraka Holding Company	53.2%

5.2.1.2 Development of the Company's Share Capital

The Company's Share Capital changed several times. At incorporation, the Company's Share Capital was one billion (1,000,000,000) Saudi riyals divided into one hundred million (100,000,000) ordinary cash shares with a fully-paid nominal value of ten (10) Saudi riyals per share. At incorporation, the Company's shareholding structure was as follows:

Table (58): Company Shareholders as of 02/05/1428H (corresponding to 19/05/2007G)

Shareholder	Number of Shares	Ownership (%)
The Saudi Investment Bank	29,000,000	29.0%
Amlak Finance	22,500,000	22.5%
Al Baraka Investment and Development Co. (Saleh Abdullah Kamel & Co.)	10,000,000	10.0%
Almakarim International for Real Estate Development	10,000,000	10.0%
Aseer Trading, Tourism & Manufacturing, Agriculture, Real Estate and Contracting	5,000,000	5.0%
Al-Nawasi Al-Arabia for Development and Advancement Ltd.	5,000,000	5.0%
Al Bawarej International Development & Real Estate Investment Company	5,000,000	5.0%
Trading Company for Marketing Services and Agencies Ltd.	5,000,000	5.0%
Al Khozama Real Estate Development Co.	3,000,000	3.0%
Saleh Abdullah Mohammed Kamel	3,000,000	3.0%
Zarabi Al-Arabia for Development and Advancement	2,500,000	2.5%
Total	**100,000,000**	**100.0%**

Source: The Company.

At the Extraordinary General Assembly Meeting dated 02/09/1432H (corresponding to 02/08/2011G), the Shareholders decided to reduce the Share Capital from one billion (1,000,000,000) Saudi riyals to eight hundred seventy-seven million, five hundred thousand (877,500,000) Saudi riyals, as it exceeded the Company's needs. To reduce it, the Company was to purchase and cancel twelve million, two hundred fifty thousand (12,250,000) shares in accordance with the relevant provisions of the Companies Law. The share capital structure was then as follows:

Table (59): Company shareholders as of 02/09/1432H (corresponding to 02/08/2011G)

Shareholder	Number of Shares	Ownership (%)
The Saudi Investment Bank	29,000,000	33.0%
Amlak Finance	23,750,000	27.1%
Al Tawfeek House Holding Company	13,000,000	14.8%
Almakarim International for Real Estate Development	5,100,000	5.8%
Aseer Trading, Tourism & Manufacturing, Agriculture, Real Estate and Contracting	5,000,000	5.7%
Al Khozama Real Estate Development Co.	3,000,000	3.4%
Al-Nawasi Al-Arabia for Development and Advancement Ltd.	2,550,000	2.9%
Al Bawarej International Development & Real Estate Investment Company	2,550,000	2.9%
Trading Company for Marketing Services and Agencies Ltd.	2,550,000	2.9%
Zarabi Al-Arabia for Development and Advancement	1,250,000	1.4%
Total	**87,750,000**	**100%**

Source: The Company.

At its meeting held on 09/06/1433H (corresponding to 30/04/2012G), the Extraordinary General Assembly decided to amend its previous decision on the reduction of the Share Capital from one billion (1,000,000,000) Saudi riyals to eight hundred seventy-seven million, five hundred thousand (877,500,000) Saudi riyals. Following this amendment, the Share Capital was to be reduced from one billion (1,000,000,000) Saudi riyals to fully paid nine hundred million (900,000,000) Saudi riyals, as it exceeded the Company's needs. To reduce it, the Company was to purchase and cancel ten million (10,000,000) shares in accordance with the relevant provisions of the Companies Law. The share capital structure was then as follows:

Table (60): Company shareholders as of 09/06/1433H (corresponding to 30/04/2012G)

Shareholder	Number of Shares	Ownership (%)
The Saudi Investment Bank	29,000,000	32.22%
Amlak Finance	23,750,000	26.39%
Al Tawfeek Development House	13,000,000	14.44%
Almakarim International for Real Estate Development	5,100,000	5.66%
Aseer Company for Trading and Tourism	5,000,000	5.55%
Al Bawarej International Development & Real Estate Investment Company	2,550,000	2.83%
Trading Company for Marketing Services and Agencies	2,550,000	2.83%
Al-Nawasi Al-Arabia for Development and Advancement	2,550,000	2.83%
Abdullah Ibrahim Al-Howaish & Partners Co	2,000,000	2.22%
Zarabi Al-Arabia for Development and Advancement	1,250,000	1.38%
Mohammed Abdulrahman Sulaiman Al-Farraj	750,000	0.83%
Abdullah Khaled Abdullah Melhem	750,000	0.83%
Sulaiman Mohammed Sulaiman Al-Romaih	750,000	0.83%
Abdulaziz Abdulrahman Abdullah Al-Modaimegh	750,000	0.83%
Abdullah Turki Saad Al Sudairy	70,000	0.077%
Osama Mirza Saleh Al-Khanzeri	50,000	0.055%
Tawfiq Yahya Hassan Maafa	40,000	0.044%
Saud Abdullah Abdulrahman Al Shathri	40,000	0.044%
Nizar Saleh Ibrahim Al Suwaiyan	30,000	0.033%
Abdullah Ibrahim Sulaiman Al-Howaish	20,000	0.022%
Total	**90,000,000**	**100%**

Source: The Company.

At the Extraordinary General Assembly Meeting held on 19/08/1438H (corresponding to 16/05/2017G), the Shareholders decided to increase the Share Capital of the Company from fully-paid nine hundred million (900,000,000) Saudi riyals to fully-paid nine hundred three million (903,000,000) Saudi riyals through issuance of three hundred thousand (300,000) new shares at a value of three million (3,000,000) Saudi riyals, registered for some employees under the Employee Share Scheme. The share capital structure was then as follows:

Table (61): Company shareholders as of 19/08/1438H (corresponding to 16/05/2017G)

Shareholder	Number of Shares	Ownership (%)
The Saudi Investment Bank	29,000,000	32.11%
Amlak Finance	23,750,000	26.30%
Al Tawfeek Development House	13,000,000	14.39%
Almakarim International for Real Estate Development	5,100,000	5.64%
Aseer Company for Trading and Tourism	5,000,000	5.53%
Al Bawarej International Development & Real Estate Investment Company	2,550,000	2.82%
Trading Company for Marketing Services and Agencies	2,550,000	2.82%
Al-Nawasi Al-Arabia for Development and Advancement	2,550,000	2.82%
Abdullah Ibrahim Sulaiman Al-Howaish	2,052,500	2.27%
Zarabi Al-Arabia for Development and Advancement	1,250,000	1.38%
Mohammed Abdulrahman Sulaiman Al-Farraj	750,000	0.83%
Abdullah Khaled Abdullah Melhem	750,000	0.83%
Sulaiman Mohammed Sulaiman Al-Romaih	750,000	0.83%
Abdulaziz Abdulrahman Abdullah Al-Modaimegh	750,000	0.83%
Abdullah Turki Saad Al Sudairy	190,000	0.21%
Tawfiq Yahya Hassan Maafa	65,000	0.07%

Shareholder	Number of Shares	Ownership (%)
Saud Abdullah Abdulrahman Al Shathri	60,000	0.066%
Osama Mirza Saleh Al-Khanzeri	50,000	0.055%
Nizar Saleh Ibrahim Al Suwaiyan	42,500	0.047%
Mohammed Habeeb Al Salman	20,000	0.022%
Abdullah Saad Ali Al Shathri	20,000	0.022%
Ali Mohammed Zafir Alshashaa	17,500	0.019%
Rashed Khalid Rashed Al Madyan	15,000	0.016%
Turki Otaibi Moaid Al Zahrani	10,000	0.011%
Khaled Ibrahim Mohamed Al-Aqeel	7,500	0.008%
Total	**90,300,000**	**100%**

Source: The Company.

At the Extraordinary General Assembly Meeting held on 21/08/1439H (corresponding to 07/05/2018G), the Shareholders also approved the increase in the Company's Share Capital from fully-paid nine hundred three million (903,000,000) Saudi riyals to fully-paid nine hundred six million (906,000,000) Saudi riyals through issuance of three hundred thousand (300,000) new shares at a value of three million (3,000,000) Saudi riyals, registered for some employees under the Employee Share Scheme.

The Company's current Share Capital is nine hundred six million (906,000,000) Saudi riyals divided into ninety million, six hundred thousand (90,600,000) shares with a fully-paid nominal value of ten (10) Saudi riyals per share. It is distributed among the Current Shareholders as follows:

Table (62): Company shareholders as of 21/08/1439H (corresponding to 07/05/2018G)

Shareholder	Number of Shares	Ownership (%)
The Saudi Investment Bank	29,000,000	32.01%
Amlak Finance	23,750,000	26.21%
Al Tawfeek Development House	13,000,000	14.35%
Almakarim International for Real Estate Development	5,100,000	5.63%
Aseer Company for Trading and Tourism	5,000,000	5.52%
Al Bawarej International Development & Real Estate Investment Company	2,550,000	2.81%
Trading Company for Marketing Services and Agencies	2,550,000	2.81%
Al-Nawasi Al-Arabia for Development and Advancement	2,550,000	2.81%
Abdullah Ibrahim Sulaiman Al-Howaish	2,062,500	2.28%
Zarabi Al-Arabia for Development and Advancement	1,250,000	1.38%
Mohammed Abdulrahman Sulaiman Al-Farraj	750,000	0.83%
Abdullah Khaled Abdullah Melhem	750,000	0.83%
Sulaiman Mohammed Sulaiman Al-Romaih	750,000	0.83%
Abdulaziz Abdulrahman Abdullah Al-Modaimegh	750,000	0.83%
Abdullah Turki Saad Al Sudairy	300,000	0.33%
Tawfiq Yahya Hassan Maafa	97,500	0.11%
Saud Abdullah Abdulrahman Al Shathri	85,000	0.09%
Nizar Saleh Ibrahim Al Suwaiyan	52,500	0.06%
Osama Mirza Saleh Al-Khanzeri	50,000	0.06%
Mohammed Habeeb Al Salman	42,500	0.05%
Abdullah Saad Ali Al Shathri	40,000	0.04%
Ali Mohammed Zafir Alshashaa	40,000	0.04%
Turki Otaibi Moaid Al Zahrani	27,500	0.03%
Rashed Khalid Rashed Al Madyan	27,500	0.03%

Shareholder	Number of Shares	Ownership (%)
Khaled Ibrahim Mohamed Al-Aqeel	15,000	0.02%
Omar Sulaiman Abdulaziz Abanomia	10,000	0.01%
Total	**90,600,000**	**100%**

Source: The Company.

5.3 Board of Directors and Secretary of the Board

The Company operates under the direction of the Board of Directors, which is composed of nine (9) directors elected by the Shareholders in the Ordinary General Assembly for a term of three (3) years, and they may be reappointed. In accordance with the applicable regulations and instructions, SAMA approval of the nomination of all directors must be obtained prior to the appointment of such directors.

The Board of Directors has the widest powers in the management of the Company, the conduct of its business inside and outside the Kingdom and the disposal of its assets in accordance with the financing laws and their implementing regulations pursuant to the powers of the General Assembly. With respect to the election of Directors by the Shareholders, the General Assembly has the power to establish rules and regulations for the election procedures under the Bylaws, including the final decision on doubts and disputes relating to the validity of the election. Policies and criteria for membership on the Board of Directors are approved by the General Assembly.

The following table sets out the names of the Directors and the Secretary of the Board as of the date of this Prospectus:

Board of Directors

Table (63): The Company's Board of Directors

Name	Position	Nationality	Age	Date of Appointment to the Board	Direct Ownership (%)		Indirect Ownership (%)		Status
					Pre-Offering	Post-Offering	Pre-Offering	Post-Offering	
Abdullah Ibrahim Sulaiman Al-Howaish	Chairman	Saudi	58	2006G	2.28%	1.59%	N/A	N/A	Non-executive, non-independent
Mansour bin Abdul Aziz Rashid Al-Bosaily	Vice Chairman	Saudi	59	2015G	N/A	N/A	N/A	N/A	Non-executive, independent
Faisal Abdullah Abdulaziz Al Omran	Member	Saudi	39	2015G	N/A	N/A	N/A	N/A	Non-executive, non-independent
Khalid Abdulaziz Abdulrahman Al Rayes	Member	Saudi	39	2018G	N/A	N/A	N/A	N/A	Non-executive, non-independent
Amr Mohamed Abdullah Kamel	Member	Saudi	46	2018G	N/A	N/A	N/A	N/A	Non-executive, independent
Majed Abdulghani Abdul-Hadi Fakih	Member	Saudi	48	2012G	N/A	N/A	N/A	N/A	Non-executive, non-independent

Name	Position	Nationality	Age	Date of Appointment to the Board	Direct Ownership (%)		Indirect Ownership (%)		Status
					Pre-Offering	Post-Offering	Pre-Offering	Post-Offering	
Sultan Fawaz Abdulaziz Al Hokair	Member	Saudi	26	2018G	N/A	N/A	N/A	N/A	Non-executive, non-independent
Thamer Abdulkader Abdullah Jan	Member	Saudi	54	2018G	N/A	N/A	N/A	N/A	Non-executive, independent
Adel Hussein Ali Ahmed	Member	Emirati	42	2017G	N/A	N/A	N/A	N/A	Non-executive, non-independent

Source: The Company.

The Secretary of the Board is Mr. Omar Sulaiman Abanomia, who was appointed to this position on 01/09/2019G (please refer to Section (5.4) for a summary of the CVs of the Members of the Executive Management.)

Name	Abdullah Ibrahim Al-Howaish
Age	58
Nationality	Saudi
Current Position	Chairman
Academic Qualifications	Bachelor of Economics, King Abdulaziz University, Saudi Arabia, 1985
Work Experience	– Managing Director and General Manager, Aseer Trading, Tourism and Manufacturing Company, a multipurpose public joint stock company, since 2019G – General Manager, Abdullah Al-Howaish & Partners Investment Co., a limited partnership, wholesale, retail and cooked food sector, from 2008G to the present
Other positions	– Director, Al Ittefaq Steel Product Company, a closed joint stock company, steel industries sector, since 2011G – Chairman of the Executive Committee, Saudi Ground Services, a public joint stock company, transport services sector, from 2016G to 2019G – Chairman, Saudi Ground Services, a public joint stock company, transport services sector, from 2016G to 2019G – Chairman, Saudi Amad for Airport Services & Transport Support, a limited liability company, transport services sector, since 2016G – Chairman, Standard Chartered Capital Saudi Arabia, a closed joint stock company, investment services sector, since 2018G – Member of the Governance, Risk and Compliance Committee, STC, a public joint stock company, telecommunication and utilities sector, from 2016G to 2018G – Director, Al-Tawfiq Financial Group (currently Itqan Capital), a closed joint stock company, investment services sector, from 2008G to 2013G – Director, SABB Takaful, a public joint stock company, insurance services sector, from 2010G to 2014G – Chairman of Audit Committee, SABB Takaful, a public joint stock company, insurance services sector, from 2010G to 2014G – Director, Saudi Ground Services, a public joint stock company, transport services sector, from 2014G to 2015G – Chairman of Audit Committee, Saudi Ground Services Company, a public joint stock company, transport services sector, from 2014G to 2015G – Director, Riyadh Airports Company, a closed joint stock company, transport services sector, from 2016G to 2017G

Other positions (Continued)	– Chairman, Audit and Risk Committee, Riyadh Airports Company, a closed joint stock company, transport services sector, from 2016G to 2017G – Managing Director, Amlak International for Real Estate Finance Company, a closed joint stock company, finance sector, from 2006G to 2018G – Vice Chairman, Halwani Bros., a public joint stock company, food production sector, since 2019G – Member of Audit Committee, Emaar, The Economic City, a public joint stock company, real estate management and development sector, since 2019G

Name	Mansour bin Abdulaziz Albusaily
Age	59
Nationality	Saudi
Current Position	Director
Academic Qualifications	Bachelor of Law, King Saud University, KSA, 1984
Work Experience	– Executive Director of Legal Affairs and Secretary General, Saudi British Bank, a public joint stock company, banking services sector, from 1990 to 2014G
Other positions	– Chairman and Member of the Risk Committee, HSBC Saudi Arabia, a closed joint stock company, security service sector, from January 2015G – Director, Saudi Reinsurance Company "Saudi Re", a public joint stock company, insurance services sector, since 2012G – Director, Saudi Ground Services, a public joint stock company, airport ground services sector, from 2014G to 2014G – Director, United Electronics Company (eXtra), a public joint stock company, electronics retail industry, since 2016G – Director, Jabal Omar Development Company, a public joint stock company, real estate management and development sector, since 2016G – Member of Executive Committee, Saudi Ground Services Company, a public joint stock company, airport ground services sector, since 2019G – Member of Risk Management Committee, Saudi Ground Services Company, a public joint stock company, airport ground services sector, since 2019G – Director, Saudi Ground Services Company, a public joint stock company, airport ground services sector, since 2015G

Name	Faisal Abdullah Al Omran
Age	39
Nationality	Saudi
Current Position	Director
Academic Qualifications	Bachelor of Finance and Accounting, Northeastern University, USA, 2003G
Work Experience	– CEO, The Saudi Investment Bank, a public joint stock company, banking services sector, since 2019G – Deputy Chief Executive Officer, The Saudi Investment Bank, a public joint stock company, banking services sector, from 2017G to 2019G – General Manager, Treasury & Investment Group, Saudi Investment Bank, a public joint stock company, banking services sector, from 2015G to 2017G – Deputy General Manager, Treasury & Investment Group, The Saudi Investment Bank, a public joint stock company, banking services sector, from 2014G to 2015G
Other positions	– Director, Alistithmar for Financial Securities and Brokerage Company, a closed joint stock company, security service sector, since 2012G – Director, Dr. Mohammed Rashid Al-Faqih & Co., a closed joint stock company, health services sector, since 2016G

Name	Khaled Abdulaziz Al Rayes
Age	39
Nationality	Saudi
Current Position	Director
Academic Qualifications	– MA in Finance, University of Denver, USA, 2007G – MBA, University of Denver, USA, 2006G – Bachelor of Business Administration, King Saud University, KSA, 2002G
Work Experience	– CEO, Alistithmar Capital, a closed joint stock company, investment sector, since 2018G – Director of Investment, Aseer Company, a public joint stock company, investment sector, from 2014G to 2018G – Director of Corporate Finance, Al Rajhi Capital, a closed joint stock company, corporate finance industry, from 2010G to 2014G
Other positions	Director, Al Rabie Saudi Foods Company, a limited liability company, beverage and food industry, since 2014G

Name	Amr Mohamed Abdullah Kamel
Age	46
Nationality	Saudi
Current Position	Director
Academic Qualifications	Bachelor of Business Administration, King Saud University, KSA, 1997
Work Experience	– CEO Assistant, Dallah Albaraka Holding Company, a limited liability company, maintenance and operation of electrical and mechanical works, since 2000G – General Manager, Algwaa Telecommunications Company Limited, a limited liability company, electronic and electrical appliances trading sector, since 2010G – General Manager, Almuraa Company Limited, a limited liability company, retail and wholesale of medical equipment, since 2001G
Other positions	– Chairman, Dallah Driving Company, a limited liability company, driving education sector, since 2016G – Director, Dallah Telecom, a limited liability company, contracting, electrical works and networks sector, since 2005G – Director, National Environmental Preservation Co. (BeeA’h), a limited liability company, waste treatment and pollution control sector, since 2003G

Name	Majed bin Abdulghani Fakih
Age	48
Nationality	Saudi
Current Position	Director
Academic Qualifications	Bachelor of Business Administration, King Saud University, KSA, 1995
Work Experience	– General Manager of Corporate Banking, The Saudi Investment Bank, a public joint stock company, banking services sector, since 2012G
Other positions	– Member of Credit Committee, The Saudi Investment Bank, a public joint stock company, banking services sector, since 2012G – Director, ORIX Leasing Company, a closed joint stock company, financial leasing services sector, from 2012G to 2015G

Name	Sultan Fawaz Al Hokair
Age	26
Nationality	Saudi
Current Position	Director
Academic Qualifications	Bachelor of Business Administration, Finance, Insurance and Entrepreneurship, Northeastern University, USA, 2014G
Work Experience	Vice Chairman, Food & Entertainment Company, Fawaz Abdulaziz Alhokair & Partners Co., a limited liability company, catering sector, since 2014G
Other positions	– Director, Fez Saudi Holding Company, a holding company, real estate development sector, since 2014G – Vice Chairman, Fawaz Abdulaziz Alhokair & Partners Co., a public joint stock company, luxury consumer goods sector, from January 2018G

Name	Thamer Abdulkader Abdullah Jan
Age	54
Nationality	Saudi
Current Position	Director
Academic Qualifications	– Bachelor of Economics, King Saud University, Riyadh, KSA, 1989 – M.A. in Applied Economics, Southern Methodist University, Dallas, USA, 1995
Work Experience	General Manager of Corporate Banking, Saudi British Bank, a public joint stock company, banking sector, from 2011G to 2013G
Other positions	– Independent Director, Member of Audit Committee and Member of Remuneration and Nomination Committee, Saudi Delta, a closed joint stock company, electricity and television contracting sector, since 2014G – Director of Murabaha and Sukuk Fund, Itqan Capital, Saudi Arabia, a closed joint stock company, asset management, direct investment, investment banking and custody services, from 2017G to 2018G – Director, Member of Audit Committee and Member of Executive Committee, Emirates NBD Capital KSA, a closed joint stock company, investment services sector, from 2015G to 2018G – Director, Member of Credit and Risk Committee, Member of Executive Committee and Member of Remuneration and Nomination Committee, Gulf Finance Corporation, UAE, a public joint stock company, financing services sector, from 2016G to 2017G – Independent Chairman, Chairman of Credit and Risk Committee, Member of Executive Committee and Member of Remuneration and Nomination Committee of Gulf Finance Corporation, KSA, a closed joint stock company, financing services sector, from 2013G to 2017G – Member of Audit Committee, Saudi Hollandi Bank, a public joint stock company, banking sector, from 2014G to 2015G

Name	Adel Hussein Ali Ahmed
Age	42
Nationality	Emirati
Current Position	Director
Academic Qualifications	– Master of Electronic Commerce, Bond University, Australia, 2004G – Bachelor of Information Systems Management, United Arab Emirates University, UAE, 2001G
Work Experience	– Head of Leasing and Property Management, Limitless, Dubai, a limited liability company, real estate services sector, from February 2014G to August 2014G – General Manager of Limitless, Vietnam, a limited liability company, real estate services sector, from 2010G to 2014G
Other positions	– Director, Warqa Gardens, Dubai, a limited liability company, real estate services sector, since 2014G – Director, Sky Gardens, a limited liability company, investment services sector, since 2014G – Vice President of Real Estate Investment, Amlak Finance, a public joint stock company, financing sector, since 2014G

Name	Omar Sulaiman Abanomia
Age	34
Nationality	Saudi
Current Position	Board Secretary and Senior Manager, Governance & Legal Affairs (since 2019G)
Academic Qualifications	– Bachelor of Business Administration, Accounting, King Saud University, KSA, 2008G – MBA, Middle Tennessee State University, USA, 2011G
Work Experience	– Director of Compliance and Anti-Money Laundering, Amlak International for Real Estate Finance Company, a closed joint stock company, real estate finance sector, from 2017G to 2019G – Senior Manager, Compliance Department, Al Rajhi Bank, from 2016G to 2017G – Head of Compliance, Bank Muscat, from 2013G to 2016G – Deputy Head of Compliance, Bank Muscat, from 2013G to 2013G – Anti-Money Laundering Officer, Arab National Bank, from 2012G to 2013G – Anti-Money Laundering Officer, Samba Bank, from 2008G to 2009G
Other positions	Member of Financial Crimes Committee, SAMA

5.4 Members of Executive Management

Table (64): Members of Executive Management

Name	Position	Nation-ality	Age	Date of Appointment	Shares owned pre-Offering	Shares owned post-Offering
Abdullah Turki Sudairy	CEO	Saudi	44	2007G	300,000	210,000
Ali bin Mohammed Alshashaa	Executive Director, Finance, Operations and IT	Saudi	50	2016G	40,000	28,000
Tawfiq Yahya Maafa	Executive Director, Retail Segment	Saudi	42	2007G	97,500	68,250
Saud Abdullah Al Shathri	Executive Director, Administrative and Human Resources	Saudi	41	2007G	85,000	59,500
Mohammed Habeeb Al Salman	Executive Director, Risk and Credit	Saudi	45	2014G	42,500	29,750
Nizar Saleh Al Suwaiyan	Executive Director, Corporate Management	Saudi	43	2011G	52,500	36,750
Turki Otaibi Al Zahrani	Executive Director, Strategy and Marketing	Saudi	39	2007G	27,500	19,250
Omar Sulaiman Abanomia	Senior Manager of Legal Affairs and Governance and Board Secretary	Saudi	34	2017G	10,000	7,000
abdullah Mohammed Al shehri	Senior Manager of Audit	Saudi	35	2019G	N/A	N/A

Source: The Company.

Below is a summary of the CVs of the above Executive Management Members:

Name	Abdullah Turki Sudairy
Age	45
Nationality	Saudi
Current Position	CEO (since 2014G)
Academic Qualifications	– Master of Global Management, Thunderbird School of Global Management, USA, 1998 – Bachelor of Business Administration, Accounting, King Saud University, KSA, 1996
Work Experience	– Deputy Chief Executive Officer, Strategic Development Manager, Amlak International for Real Estate Finance Company, a closed joint stock company, real estate finance sector, from 2011G to 2013G – Executive Director of Credit and Risk, Amlak International for Real Estate Finance Compnay, a closed joint stock company, real estate finance sector, from 2007G to 2011G – Assistant General Manager, Corporate Section, Samba Financial Group, a public joint stock company, banking services sector, from 1999 to 2007G
Other positions	– Member of Executive Committee, Amlak International for Real Estate Finance Company, a closed joint stock company, real estate finance sector, since 2012G – Member of Risk Committee, Amlak International for Real Estate Finance Company, a closed joint stock company, real estate finance sector, since 2016G – Member of Executive Committee, Saudi Ceramics, a public joint stock company, capital goods sector, since 2016G – Member of Strategic Committee, Saudi Ceramics, a public joint stock company, capital goods sector, since 2016G – Director, Saudi Ceramics, a public joint stock company, capital goods sector, since 2016G – Chairman of Nomination Committee, Saudi Ceramics, a public joint stock company, capital goods sector, since 2018G – Director, Riyadh Airports Company, a joint stock company, transport services sector, from September 2017G to February 2018G

Name	Ali bin Mohammed Alshashaa
Age	50
Nationality	Saudi
Current Position	Executive Director, Finance, Operations and IT (since 2017G)
Academic Qualifications	– Bachelor of Business Administration, Accounting, King Saud University, KSA, 1992 – General Securities Qualification Certificate (CME-1), CMA, 2009G
Work Experience	– Executive Director, Finance & Planning, Amlak International for Real Estate Finance Company, a closed joint stock company, real estate finance sector, from 2016G to 2017G – Director General of Financial and Administrative Affairs, Saudi Export Development Authority, a government agency, from 2014G to 2016G – Executive Member and General Director of Finance, Ingeus, a closed joint stock company, advisory services sector, 2013G – Financial Advisor, Intilaaq for Financial Consultations, professional services, advisory services sector, from 2012G to 2013G – General Director of Finance, Al-Rajhi Real Estate Investments Company, a limited liability company, real estate investment sector, from 2010G to 2012G – Head of Financial Affairs, Watan Investment & Securities Company, a closed joint stock company, securities sector, from 2006G to 2010G – Director of Financial Accounting, Riyad Bank, a public joint stock company, banking services sector, from 1992 to 2006G
Other positions	– Director, Sanad Cooperative Insurance and Reinsurance Company, a public joint stock company, insurance services sector, from 2013G to 2014G – Member of Audit Committee, National Industrialization Company, a public joint stock company, petrochemical sector, from 2008G to 2013G – Vice Chairman of Sub-committee of Chief Financial Officers of Financing Companies, SAMA, since 2017G

Name	Tawfiq Yahya Maafa
Age	42
Nationality	Saudi
Current Position	Executive Director, Retail Segment (since 2014G)
Academic Qualifications	Bachelor in Physical Education, King Saud University, KSA, 1999
Work Experience	– Executive Director of Operations and IT, Amlak International for Real Estate Finance, a closed joint stock company, real estate finance sector, from 2011G to 2014G – Chief Operating Officer, Amlak International for Real Estate Finance Company, a closed joint stock company, real estate finance sector, from 2007G to 2011G – Director of Compliance and Quality, Department of Alternative Electronic Services, Arab National Bank, a public joint stock company, banking services sector, from 2006G to 2007G
Other positions	Chairman of Real Estate Finance Sub-Committee for Financing Companies, SAMA, since 2017G

Name	Saud Abdullah Al Shathri
Age	41
Nationality	Saudi
Current Position	Executive Director, Administrative and Human Resources (since 2011G)
Academic Qualifications	BA in Business Administration, Arizona State University, USA, 2001G
Work Experience	– Director of Human Resources, Amlak International for Real Estate Finance Compnay, a closed joint stock company, real estate finance sector, from 2007G to 2011G – General Director of Administrative Affairs and Human Resources, Seder Company, a closed joint stock company, contracting sector, from 2002G to 2007G
Other positions	Secretary of Remuneration and Nomination Committee, Amlak International for Real Estate Finance Company, a closed joint stock company, real estate finance sector, since 2011G

Name	Mohammed Habeeb Al Salman
Age	45
Nationality	Saudi
Current Position	Executive Director, Risk & Credit (since 2014G)
Academic Qualifications	– Bachelor of Business Administration, King Saud University, KSA, 1998G – Master of Business Administration, King Saud University, KSA, 2008G
Work Experience	Credit Manager, Riyad Bank, a public joint stock company, banking services sector, from 1998G to 2014G
Other positions	– Chairman of the Risk Subcommittee for Saudi Financing Companies, SAMA, since 2016G – Secretary of Risk Committee, Amlak International for Real Estate Finance company, a closed joint stock company, real estate finance sector, since 2016G

Name	Nizar Saleh Al Suwaiyan
Age	43
Nationality	Saudi
Current Position	Executive Director of Corporate Management (since 2016G)
Academic Qualifications	– Bachelor of Applied Chemical Engineering, King Fahd University of Petroleum, KSA, 1999 – Master of Business Administration, Brunel University, UK, 2006G
Work Experience	– Senior Manager of Corporate Segment, Amlak International for Real Estate Finance Company, a closed joint stock company, real estate finance, from 2011G to 2016G – Senior Manager of Corporate Banking, Saudi British Bank (SABB), a public joint stock company, banking services, from 2006G to 2011G – Manager of Corporate Banking, Saudi British Bank (SABB), a public joint stock company, banking services, from 2002G to 2006G – Assistant Manager of Corporate Banking, Saudi British Bank (SABB), a public joint stock company, banking services, from 2001G to 2002G
Other positions	Member of Financial Leasing Sub-Committee for Financing Companies, SAMA, since 2017G

Name	Turki Otaibi Al Zahrani
Age	39
Nationality	Saudi
Current Position	Executive Director, Strategy & Marketing (since 2018G)
Academic Qualifications	Bachelor in Quantitative Methods, King Saud University, KSA, 2002G
Work Experience	– Senior Manager of Strategy, Amlak International for Real Estate Finance Company, a closed joint stock company, real estate finance sector, from 2014G to 2017G – Director of Retail Credit, Amlak International for Real Estate Finance Compay, a closed joint stock company, real estate finance sector, from 2010G to 2014G – Credit Analyst, Arab National Bank, a public joint stock company, banking services, from 2003G to 2010G
Other positions	N/A

Name	Omar Sulaiman Abanomia
Age	34
Nationality	Saudi
Current Position	Secretary of the Board and Senior Manager, Governance & Legal Affairs (since 2019G)
Academic Qualifications	For details of CVs, see Section (5.3) "**Summary of the CVs of the Directors and Secretary of the Board**" of this Prospectus.
Work Experience	
Other positions	

Name	Abdullah bin Mohammed Al-Shahri
Age	35
Nationality	Saudi
Current Position	Senior Manager, Internal Audit Department (since 2019G)
Academic Qualifications	Bachelor of Biochemistry, King Saud University, KSA, 2005G
Work Experience	– Senior Manager, Internal Audit Department, Samba Financial Group, from 2017G to 2019G – Director, Internal Audit Department, Bank AlJazira, from 2014G to 2017G – Director of SMEs, Business Services Management Department, Bank AlJazira, from 2013G to 2014G – Director of Real Estate Loans, Bank AlJazira, from 2009G to 2013G – Assistant Director of Real Estate Loans, Bank AlJazira, from 2007G to 2009G – Credit Risk Officer, Banque Saudi Fransi, from 2005G to 2007G
Other positions	N/A

5.5 Declarations of Directors, Senior Executives and Secretary of the Board

The Directors, CEO, CFO, Senior Executives, and Secretary of the Board declare that:

1. None of the Directors, Senior Executives, or the Secretary of the Board have at any time been declared bankrupt;
2. None of the companies by which any of the Directors, Senior Executives or the Secretary were employed in a managerial or supervisory capacity were declared bankrupt in the past five years;
3. Except as disclosed in Section (12.5.10) "Agreements with Related Parties" of this Prospectus, the Directors, Senior Executives and the Secretary do not, nor do any their relatives, have any kind of shares, debt instruments or interests in the Company or its investments; and
4. All agreements with related parties will continue to be made on a competitive basis and voting on all contracts with related parties in the meetings of the Company's Board of Directors and Ordinary General Assembly will take place with the director who has an interest, direct or indirect, in such

contracts abstaining from voting, whether in the Board of Directors or the Ordinary General Assembly, in accordance with Article (71) of the Companies Law and Article (44) of the Corporate Governance Regulations.

Remuneration and Compensation of Directors and Senior Executives

Pursuant to the Company's Bylaws, the remuneration of the Board of Directors and its committees shall consist of a lump sum to be voted on by the Ordinary General Assembly within the limits permitted under the Companies Law and its Regulations and the relevant instructions issued by the competent authorities. They shall also be paid compensation for reasonable actual expenses that they incur for attending meetings of the Board of Directors or its committees, including travel and accommodation expenses.

According to Article (76) of the Companies Law, under which remuneration may be a percentage of profits, the maximum annual remuneration for each Director shall not exceed an amount of five hundred thousand (500,000) Saudi riyals.

The following table sets out the remuneration of the Directors and Senior Executives (including the CEO and CFO) for the financial years ended 31 December 2016G, 2017G and 2018G.

Table (65): Remuneration of the Board of Directors, Board Committees and the Top Five Senior Executives, including the CEO and CFO

SAR	2016G	2017G	2018G
Directors	1,527,406	1,688,277	3,214,081
Committee Members (excluding the Sharia Committee)	308,015	827,233	1,123,772
Senior Executives	7,542,254	8,320,304	8,598,346

Source: The Company.

Conflict of Interest

Neither the Company's By-Laws nor its internal regulations and policies grant a Board Director the power to vote on any work, contract or offer in which they have a direct or indirect interest, in accordance with Article (71) of the Companies Law, under which no director may have a direct or indirect interest in the works and contracts concluded for the benefit of the Company unless authorized by the Ordinary General Assembly. In accordance with the aforementioned Article, directors must inform the Board of any personal interests they may have in the works and contracts concluded for the benefit of the Company. The Chairman of the Board of Directors shall inform the Ordinary General Assembly, when convened, of the businesses and contracts in which a Director has a direct or indirect personal interest. The notification shall be accompanied by a special report prepared by the Company's External Auditor.

Table (66): Directors' business competing with the Company

	Director Name	Competing activity	Additional Information
1	Faisal Abdullah Al Omran	Corporate and retail finance, corporate and retail real estate finance, sale of real estate financing portfolios	The Director is an employee of The Saudi Investment Bank, that is engaged in providing banking services, including accepting deposits and providing financing services to its customers through its branches across the cities of the Kingdom.
2	Majed bin Abdulghani Fakih	Corporate and retail finance, corporate and retail real estate finance, sale of real estate financing portfolios	The Director is an employee of The Saudi Investment Bank, that is engaged in providing banking services, including accepting deposits and providing financing services to its customers through its branches across the cities of the Kingdom.
3	Adel Hussein Ali Ahmed	Financing activities (including real estate financing) and investment such as Ijara, Murabaha, Mudaraba and Musharaka.	The Director is an employee of Amlak, a public joint stock company in the United Arab Emirates. It primarily performs financing activities (including real estate financing) and investment such as Ijara, Murabaha, Mudaraba and Musharaka.

The Directors declare the following:

1. They will comply with Articles (71) and (72) of the Companies Law and Articles (44) and (46) of the Corporate Governance Regulations;
2. They will not vote on General Assembly resolutions that relate to any related party transaction or contract in which the they have a direct or indirect interest; and
3. They will not compete with the Company's business without the approval of the Ordinary General Assembly, in accordance with Article (72) of the Companies Law.

The following table sets out related party transactions:

Table (67): Key transactions with direct or indirect Related Parties

	Nature of Transaction or Contract	Transaction or Contract Amount (SAR million)	Transaction or Contract Term	Transaction or Contract Conditions	Name of the Director / Senior Executive or any of their affiliates
1	Credit facilities from The Saudi Investment Bank, a Shareholder, for 2018G	926.9 (ceiling of amounts included in the contract)	One year	The same conditions and criteria set for third parties without any privileges	Mr. Faisal Abdullah Al Omran (Representative of The Saudi Investment Bank on the Board of Directors), Mr. Majed bin Abdulghani Fakih (Representative of The Saudi Investment Bank on the Board of Directors) and Mr. Khaled Abdulaziz Al Rayes (CEO of Alistithmar for Financial Securities and Brokerage Company, wholly owned by The Saudi Investment Bank, a Shareholder).
2	Investment in units of Saraya Real Estate Fund operated by Alistithmar for Financial Securities and Brokerage Company, which is wholly owned by The Saudi Investment Bank, a Shareholder, in 2014G	12.8 (the value of the Fund's units was owned by the Company as of 31/12/2018G)	Five years	The same conditions and criteria set for third parties without any privileges	Mr. Faisal Abdullah Al Omran (Representative of The Saudi Investment Bank on the Board of Directors, and a Director of Alistithmar for Financial Securities and Brokerage Company), Mr. Majed bin Abdulghani Fakih (Representative of The Saudi Investment Bank on the Board of Directors) and Mr. Khaled Abdulaziz Al Rayes (CEO of Alistithmar for Financial Securities and Brokerage Company, wholly owned by the Shareholder The Saudi Investment Bank and a Director of Saraya Real Estate Fund).
3	A contract between the Company and ORIX for 2016G, 2017G and 2018G for the lease of Amlak International's general administration offices at the building subleased by the Company from The Saudi Investment Bank, a Shareholder, including the maintenance of the facilities and security guard.	1.6 (value of one-year lease)	Three years	The same conditions and criteria set for third parties without any privileges	Mr. Faisal Abdullah Al Omran (Representative of The Saudi Investment Bank on the Board of Directors), Mr. Majed bin Abdulghani Fakih (Representative of The Saudi Investment Bank on the Board of Directors) and Mr. Khaled Abdulaziz Al Rayes (CEO of Alistithmar for Financial Securities and Brokerage Company, wholly owned by the Shareholder The Saudi Investment Bank and a Director of Saraya Real Estate Fund).

Section (12.5.10) "**Agreements with Related Parties**" provides a summary of contracts and transactions with the Company in which a Director has a direct or indirect interest. Except as described in Section (12.5.10) and Table (74) "**Directors' businesses competing with the Company**", the Directors were not involved in any activities that compete with those of the Company as of the date of this Prospectus.

5.6 Summary of Director and Senior Executive Employment Contracts

5.6.1 Employment Contracts

Except for the contract with Mr. Abdullah Ibrahim Al-Howaish, as the former Managing Director, the Company has not entered into contracts with the Chairman or the Directors; they were appointed pursuant to the resolution of the Extraordinary General Assembly held on 07/05/2018G.

5.6.2 Employment Contracts with Senior Executives

The Company has entered into employment contracts with all of the Company's Senior Executives, which sets their compensation and remuneration on par with their experience and qualifications. The contracts also provide some benefits, such as housing, transportation, travel ticket allowances, as well as basic salary annual remuneration. These contracts are subject to the Company's internal policies and the Saudi Labor Law. Below is a summary of the key provisions of these contracts.

Table (68): Executive Management Employment Contracts

Name	Position	Contract Date	Contract Term
Abdullah Turki Sudairy	CEO	24/4/2007G	One Gregorian year (automatically renewable unless either party notifies the other of its intent not to renew the contract 30 days before its expiry)
Ali bin Mohammed Alshashaa	Executive Director, Finance, Operations and IT	13/3/2016G	One Gregorian year (automatically renewable unless either party notifies the other of its intent not to renew the contract 90 days before its expiry)
Tawfiq Yahya Maafa	Executive Director, Retail Segment	3/3/2007G	One Gregorian year (automatically renewable unless either party notifies the other of its intent not to renew the contract 30 days before its expiry)
Saud Abdullah Al Shathri	Executive Director, Administrative and Human Resources	8/9/2007G	One Gregorian year (automatically renewable unless either party notifies the other of its intent not to renew the contract 30 days before its expiry)
Mohammed Habeeb Al Salman	Executive Director, Risk and Credit	1/5/2014G	One Gregorian year (automatically renewable unless either party notifies the other of its intent not to renew the contract 30 days before its expiry)
Nizar Saleh Al Suwaiyan	Executive Director, Corporate Management	1/6/2011G	One Gregorian year (automatically renewable unless either party notifies the other of its intent not to renew the contract 30 days before its expiry)
Turki Otaibi Al Zahrani	Executive Director, Strategy and Marketing	1/7/2007G	One Gregorian year (automatically renewable unless either party notifies the other of its intent not to renew the contract 30 days before its expiry)
Omar Sulaiman Abanomia	Senior Manager, Governance & Legal Affairs	10/9/2017G	One Gregorian year (automatically renewable unless either party notifies the other of its intent not to renew the contract 30 days before its expiry)
abdullah Mohammed Al shehri	Senior Manager of Audit	01/10/2019G	Two Gregorian year (automatically renewable unless either party notifies the other of its intent not to renew the contract 60 days before its expiry)

Source: The Company.

5.6.3 Employee Share Scheme

The Company has developed an employee share scheme as a performance bonus based on an accounting system and structure approved by the Extraordinary General Assembly meeting held on 16/5/2017G (hereinafter referred to as the "Share Scheme"). The Share Scheme sets the conditions that must be satisfied by the employee to be eligible for the Scheme.

The maximum limit of the Share Scheme (as approved in 2017G) was twelve million (12,000,000) Saudi riyals or the equivalent of 1.5% of the Company's Share Capital, whichever is less, with the number of shares not to exceed one million, two hundred thousand (1,200,000) shares. Each share has a nominal value of ten (10) Saudi riyals.

The Share Scheme mechanism is as follows:

1. Based on the annual performance evaluation of the employees, the Executive Management proposes to the Remuneration and Nomination Committee the employees to be nominated to the Share Scheme and the number of shares to be granted.
2. The Remuneration and Nomination Committee approves, annually or at any time, as it deems appropriate, those employees proposed to benefit from the Share Scheme and the number of shares proposed to be granted as recommended by the Executive Management. Shares are granted at a value of SAR 10 per share, deducted from the remuneration item.
3. The Remuneration and Nomination Committee notifies employees of their nomination and asks for their approval. If the employee does not accept, they are not be entitled to any financial reward as compensation. If they accept, a report shall be submitted to SAMA for non-objection, and the proposal, the employee's approval and the non-objection of SAMA are submitted to the Board of Directors. The Board of Directors then brings the matter to the attention of the Ordinary General Assembly and submits a request to increase the Company's Share Capital in order to issue the required shares for the employees pursuant to the submitted proposal.
4. Following the approval of the Ordinary General Assembly, the Company notifies SAMA and the competent authorities to make the necessary regulatory amendments to the Company's Bylaws and the Commercial Registration to reflect the increase in the Share Capital.

The Company obtains an undertaking from each employee participating in the Share Scheme to give the Company or other Shareholders the preferential right to purchase their shares if they wish to do so prior to listing the Company's Shares and to not take any negative steps to object to the offering and listing of the Company's Shares on the Exchange. In this regard, the Company intends to continue with the Share Scheme, if possible, after the initial public offering of the Shares, and the implementation of the Share Scheme shall be reformulated in accordance with the regulations of the concerned parties and the listed companies.

On 16/5/2017G, the Extraordinary General Assembly approved the issuance of three hundred thousand (300,000) shares with a total value of three million (3,000,000) Saudi riyals to be registered for a number of employees as a performance bonus and to increase the Share Capital from fully-paid nine hundred million (900,000,000) Saudi riyals to fully-paid nine hundred three million (903,000,000) Saudi riyals to cover the issuance of the above shares. On 7/5/2018G, the Extraordinary General Assembly approved the issuance of three hundred thousand (300,000) shares with a total value of three million (3,000,000) Saudi riyals to be registered for a number of employees as a performance bonus and to increase the Share Capital from fully-paid nine hundred three million (903,000,000) Saudi riyals to fully-paid nine hundred six million (906,000,000) Saudi riyals to cover the issuance of the above shares. Consequently, a total of six hundred thousand (600,000) shares with a total value of six million (6,000,000) Saudi riyals have been granted under the Share Scheme, representing half of the total number of shares under the approved Share Scheme. It should be noted that the Company has suspended the Employee Share Scheme as of the date of this Prospectus. It is possible that, having reviewed the Share Scheme in accordance with the Capital Market Law and its Implementing Regulations and obtaining the necessary approvals after the Offering, the Company will resume the Share Scheme.

All, current and future (if approved), employee share schemes are limited to a maximum number of five percent (5%) of the Company's Share Capital, taking into account any increases in the Company's Share Capital.

5.7 Composition of the Board of Directors

The Directors shall be appointed by election at the Ordinary General Assembly by way of a cumulative vote. The Companies Law, the Corporate Governance Regulations, the Company's Bylaws and the Company's internal governance system set out the roles and responsibilities of the Board of Directors. The term for Directors, including the Chairman, shall be a maximum of three years for each session, and they may be reappointed. Following is a summary of the roles and responsibilities of the Directors, Chairman and Board Secretary.

5.7.1 Responsibilities of the Chairman

The duties and responsibilities of the Chairman include:

Representing the Company in its relations with third parties, governmental and private bodies, before the Sharia courts, the Board of Grievances, arbitral tribunals, committees, arbitrators, all courts, judicial or quasi-judicial bodies, committees and bodies, labor offices, high and preliminary labor committees, arbitral tribunals, civil rights bodies, police stations, other government agencies and chambers of commerce.

Entering, on behalf of the Company, in tenders, receiving and making payments, making acknowledgment, claim, defenses, litigation, conciliation, acceptance and denial of judgments, arbitration on behalf of the Company, requesting judgement execution and challenging judgments, and receiving amounts upon execution thereof.

Lodging claims, litigating, making pleadings and defenses, hearing and responding to claims, making acknowledgement, objection, assignment, reconciliation and discharge, requesting seizure and execution, requesting arbitration, appointing experts and arbitrators, requesting execution of judgments, lodging and challenging appeals, receiving amounts, having recourse to and signing before SAGIA, and having recourse to, and signing necessary documents before, the CMA.

Delegating some or all of his powers to any Director or any of the Company's employees.

5.7.2 Responsibilities of the Board of Directors

The duties and responsibilities of the Board of Directors include:

- Approving the Company's strategic plans and main objectives, the mechanisms for their implementation and evaluating the overall operational performance compared to the plans and strategic objectives adopted.
- Approving quarterly and annual financial statements and signing all types of contracts, instruments and documents, including but not limited to memoranda of incorporation of companies in which the Company has shares with all amendments and appendices thereto, and the decisions to amend and sign agreements and instruments before the public notaries and official authorities.
- Appointing employees, representatives, selling, buying, conveying, accepting conveyance, receiving, delivering, leasing, opening accounts, credits, withdrawing and depositing with banks, issuing bank guarantees and borrowing funds for the purpose of providing the financing needs of the Company's business and issuing debt instruments and derivatives.
- Monitoring the Company's business to ensure that it complies with applicable laws and instructions, including those issued by SAMA.
- Identifying the main risks that may face the Company and developing the necessary systems and procedures to deal with them.
- Developing succession plans, including recruitment, training, remuneration, and replacement of senior management when necessary.
- Developing and implementing an investor relations and shareholder communication program.
- Setting rules of internal control, governance, risk management and supervision systems, and approving policies and procedures to ensure compliance with laws and regulations.
- Developing appropriate financial plans, monitoring operations, reporting, setting a mechanism to deal with and manage risks, setting performance targets and a system to evaluate them, and evaluating the CEO's performance.
- Setting rules and regulations for conducting and managing the election of Directors, including with respect to final decisions on doubts and disputes related to the validity of the election; appointing

the Board's committees and determining their powers and tasks, delegating to any official, person, institution or company any authorities, powers and disposition rights assigned to the Board and ensuring that such action does not result in a Company's activity being ceased or the Company incurring other obligations.

5.7.3 Responsibilities of the Board Secretary

The responsibilities of the Board Secretary include:

1. Providing advice to the Board of Directors as needed to increase the effectiveness of the Board's work and comply with statutory requirements.
2. Ensuring that the procedures, regulations and rules adopted for the Board's work are followed.
3. Managing the logistics and technical affairs related to Board meetings and shareholder general assembly meetings.
4. Recording the minutes of the meetings of the Board of Directors and recording and keeping any decisions issued in these meetings.
5. Coordinating and managing the flow of information between the Executive Management and the Board and among the Directors.
6. Managing the Board's meeting agenda in coordination with the Chairman and Directors.
7. Assisting in updating and enforcing the corporate governance provisions.
8. Performing such other tasks as may be delegated by the Board of Directors.

5.8 Board Committees and the Sharia Board and the responsibilities thereof

Below is a summary of the structure and responsibilities of the Board Committees:

5.8.1 Audit Committee

The Audit Committee consists of four non-executive Board members or non-Directors with expertise and knowledge. The majority of the members must be independent and the Committee must include a member specialized in financial and accounting affairs. The Committee meets at least once every quarter, with at least four (4) meetings per year.

The responsibilities of the Audit Committee are summarized as follows:

- **Financial statements**

1. Recommend to the Board the nomination of the External Auditor to be elected by the General Assembly
2. Ensure the accuracy, soundness and adherence of the accounting, financial and control procedures, verify that the financial statements are audited by the external auditor before they are presented to the Company's Board of Directors, and in particular ensure compliance with CMA requirements and meet with the appointed or accredited external auditors, as applicable, at least once a year
3. Examine the annual financial statements with the External Auditor and the Senior Management of the Company before issuing a recommendation to the Board of Directors. Review the quarterly financial statements and discuss them with the Senior Management before issuing a recommendation to the Board of Directors
4. Review accounting reports and related reports, in particular complex or unusual transactions, study applicable laws and regulations and their impact on the financial statements
5. Review the financial and accounting reporting policies and procedures, and the procedures on which the management reports are prepared based on the initial financial information and examine the role of internal and external audit in this regard.

- **Internal Audit**

1. Oversee the Internal Audit Department, ensure its independence in the performance of its tasks and verify that there are no restrictions or negative impact on its work.
2. Study and approve the internal audit plan and charter.
3. Examine the Internal Audit Department's manual of policies and procedures and make recommendations to the Board for approval.
4. Review the effectiveness of internal audit in terms of its compliance with IIA standards.
5. Examine the reports of the internal auditors, provide an opinion thereon and submit recommendations to the Board of Directors.
6. Review the Audit Committee Charter and make recommendations to the Board of Directors for approval by the Shareholders' General Assembly.
7. Determine the effectiveness of the Company's internal controls, including information protection and control procedures.
8. Evaluate the performance of the Director of Internal Audit and approve his annual remuneration and annual increase. Recommend the appointment or dismissal of the Director of Internal Audit and make recommendations to the Board in this regard.

- **Compliance**

1. Oversee the Compliance Department, ensure its independence in the performance of its tasks and verify that there are no restrictions or negative impact on its work.
2. Review the charter and policies of the Compliance and Anti-Money Laundering Department as well as its plans, actions and human resources in coordination with the Senior Management and the Director of the Compliance Department.
3. Study and provide an opinion on the reports of the Compliance Department and make recommendations to the Board of Directors.
4. Review the effectiveness of procedures for compliance with laws, regulations and reports of Compliance Department in this regard, and monitor any cases of non-compliance with these laws and regulations.
5. Review the results of inspection reports issued by SAMA and other regulatory authorities and monitor their processing by the Senior Management and Compliance Department.
6. Recommend the appointment or dismissal of the Director of Compliance Department and make recommendations to the Board in this regard.

- **External Audit**

1. Review the scope of the work of the external auditors and the manner proposed for the performance of such work and coordinate with the Internal Auditor in this regard.
2. Review the performance of the External Auditor and make a recommendation to the Board on the approval of the appointment or reappointment of the External Auditor; also ensure that the external auditors have the necessary expertise to review the business of financial companies.
3. Ensure the independence of the external auditors, Directors and the Senior Management of the Company.
4. Review the audit plans, submit proposals thereon to the External Auditor, follow up on the External Auditor's observations regarding the financial statements and monitor processing of the same.
5. Regularly meet with the external auditors privately to discuss any matters they may consider important, provided that the Company's Management members and staff does not attend such meetings.

- **Reporting**

1. Submit periodic reports to the Board of Directors on its tasks, the issues it addressed and its recommendations and suggestions in this regard.
2. Submit annual reports to the Shareholders' Assembly, including formation of the committee, its responsibilities, the tasks it has performed in this context and any other information required by law.

3. Submit an annual report to the Board including the Committee's opinion on the adequacy and effectiveness of the internal control and financial and risk management systems.

- **Other Functions**

1. Carry out any other tasks at the request of the Board of Directors or the Shareholders' Assembly related to the tasks and responsibilities of the Committee.
2. Initiate and oversee special investigations, when necessary.
3. Review the Committee's charter annually and submit any recommendations in this regard to the Ordinary General Assembly through the Board of Directors.
4. Evaluate the performance of the committee members on an annual basis and submit the evaluation to the Remuneration and Nomination Committee.
5. Review transactions with related parties and ensure that they are registered and reported.
6. Ensure that internal audit plans are reviewed by the Cybersecurity Department at least once every three years, by the Risk Department and the Compliance and Anti-Money Laundering Department once a year, and by the Customer Care Unit twice a year.

The Audit Committee consists of the following members:

Table (69): Members of the Audit Committee

Name	Position
Mohammed Abdulaziz Alshaya	Chairman
Mohammed Ibrahim Alobaid	Member
Khalid Abdulaziz Al Rayes	Member
Mansour bin Abdulaziz Albusaily	Member

Source: The Company.

The following is a brief overview of the members of the Audit Committee:

Name	Mohammed Abdulaziz Alshaya
Age	51
Nationality	Saudi
Current Position	Chairman of the Audit Committee
Academic Qualifications	– Bachelor of Accounting, Imam Muhammad bin Saud University, KSA,1990G – Master of Accounting, University of Illinois Urbana-Champaign, USA, 1998G – Advanced Management Program, Harvard Business School, 2010G – Certified Internal Auditor (CIA), the Institute of Internal Auditors, USA, 2003G – Certificates in Insurance Foundation (IFC), Chartered Insurance Institute, UK, 2001G – Certified Public Accountant, SOCPA, KSA, 2000G – Certified Public Accountant (CPA), AICPA, USA, 1999G
Work Experience	– CEO of MedGulf, 2016G-2017G – General Manager of Finance Companies Control, SAMA, 2012G-2014G – Director of Insurance Companies Control, SAMA, 2007G-2012G – Director of Banking Inspection, SAMA, 2004G-2007G – Bank Inspector and Acting Director of Banking Inspection, SAMA, 2002G-2004G – Bank Inspector, SAMA, 1999G-2002G – Accountant, SAMA, 1992G-1999G – Accountant, SEC, 1990G-1992G
Other positions	– Member of the Board of Directors, Najm Insurance Services, since 2016G – Chairman of Audit Committee, Najm Insurance Services, since 2017G – Director, Member of Executive Committee, and Chairman of Audit Committee, Saudi Ground Services, since 2015G – Member of Audit Committee, Saudi White Cement Company, since 2015G

Other positions (continued)	– Director and Chairman of Audit Committee, HSBC Saudi Arabia, since 2015G – Director, PPA, 2011G-2014G – Director, STUSID, Tunisia, 2008G-2013G Member of Audit Committee, 2008G-2010G; Chairman, 2010G-2014G – Member of Steering Committee of an IMF fund related to anti-money laundering and combating terrorism financing, 2009G-2014G; Chairman, 2013G-2014G – Vice-Chairman of Standing Committee for Combating Money Laundering, 2006G-2013G – Member of Training Committee, SAMA, 2006G-2010G; Chairman, 2010G-2014G – Director, Gulf Cooperation Council Accounting and Auditing Organization, 2006G-2014G – Member, Accounting Standards Committee, SOCPA, 2008G-2013G – Member, Quality Control Committee, SOCPA, 2013G-2016G – Member, Constituent Committee, Saudi Refinancing Company, 2013G-2014G

Name	Mohammed Ibrahim Al Obaid
Age	50
Nationality	Saudi
Current Position	Audit Committee Member
Academic Qualifications	Bachelor in Administrative Sciences, King Saud University, KSA, June 1990
Work Experience	– Secretary of the Board of Directors, SABB, January 2015G to April 2017G – Deputy Secretary of the Board of Directors, SABB, June 2004G to December 2014G – Worked in the banking sector in a number of departments and held several positions including collections, commercial services, internal audit, operations, and fighting financial crimes and compliance, March 1991 to June 2004G
Other positions	– Non-Executive Director, SABB Takaful Company, March 2014G to May 2016G – General Counsel, HSBC Saudi Arabia, September 2014G to December 2014G and since August 2017G – General Counsel, SABB Takaful, November 2017G to April 2018G – General Counsel, Saudi Ground Services, since March 2018G – Independent member of Risk and Investment Committee, Kafalah Program, since March 2018G – Independent member of Audit Committee, Saudi Ground Services, May 2017G to March 2018G

Name	Khaled Abdulaziz Al Rayes
Age	39
Nationality	Saudi
Current Position	Director
Academic Qualifications	For details of CVs, see Section (5.3) "**Summary of the CVs of the Directors and Secretary of the Board**" of this Prospectus.
Work Experience	
Other positions	

Name	Mansour bin Abdulaziz Albusaily
Age	59
Nationality	Saudi
Current Position	Director
Academic Qualifications	For details of CVs, see Section (5.3) "**Summary of the CVs of the Directors and Secretary of the Board**" of this Prospectus.
Work Experience	
Other positions	

5.8.2 Remuneration and Nomination Committee

The Remuneration and Nomination Committee is composed of at least three members of the Board of Directors, the majority of whom must be non-executive members. The members and chairman of the Committee are appointed and dismissed by the Board of Directors. The Board of Directors makes a recommendation on the method of Committee member selection, membership term and work method to the Ordinary General Assembly for approval.

Below is a summary of the responsibilities of the Remuneration and Nomination Committee:

- Evaluate and make recommendations to the Board on the skills, competencies and practical experience the Company needs to support the Board.
- Evaluate the strengths and weaknesses of the Board and its committees, and propose solutions to address any shortcomings.
- Ensure that the following factors are taken into account in assessing the eligibility of any candidate for the membership of the Board of Directors or its committees:

    1. Honesty and good reputation.
    2. Appropriate abilities and skills.
    3. Financial prudence.
    4. Independence.

- Apply the following specifications and parameters when nominating members:

    1. Requirements for membership on the Audit Committee, such as at least one member of the Committee being specialized in financial affairs.
    2. Set a maximum number of consecutive years for membership on the Board's Committees.
    3. Ensure that a member has leadership experience and management skills and is able to devote sufficient time to work related to their membership on the Board or Committee.

- Recommend to the Board of Directors a policy for nomination and election of the Directors and procedures for obtaining SAMA approval on candidates.
- Adopt a policy to ensure the competency and eligibility of all candidates for leadership positions; such policy must include, at a minimum, SAMA requirements, competency and eligibility evaluation procedures, procedures to be taken in the event that the person becomes ineligible and procedures for reviewing and developing the said policy.
- Monitor the continuity of members' independence on an annual basis and ensure there is no conflict of interest if a Director is a member of the board of another company.
- Ensure the establishment of an induction program for new Board and Board committee members.
- Review and approve the Company's remuneration and benefit policies, review and make recommendations on all forms of remuneration for Directors, members and secretaries of the Board and Board committees.
- Develop criteria for evaluation of the CEO's performance, of which the CEO shall be notified in advance and, accordingly, evaluate the CEO on an annual basis, approve and increase his salary and as well as his other remunerations, including that under the Employee Share Scheme.
- Make recommendations to the Board on the approval or rejection of any Director's transaction with another company that may involve a conflict of interest.
- Review HR policies and procedures, including management development programs, succession schemes for executive managers and development objectives, including performance indicators to be achieved under incentive and reward programs.
- Review and approve all appointments at the level of the Company's executives, after ensuring that competency and eligibility requirements are met and SAMA approval is obtained.

The Remuneration and Nomination Committee consists of the following members:

Table (70): Members of the Remuneration and Nomination Committee

Name	Position
Mansour bin Abdul Aziz Rashid Al-Bosaily	Chairman
Majed Abdulghani Abdul-Hadi Fakih	Member
Sultan Fawaz Abdulaziz Al Hokair	Member
Amr Mohamed Abdullah Kamel	Member

Source: The Company.

The following is a brief overview of the members of the Remuneration and Nomination Committee:

Name	Mansour bin Abdulaziz Albusaily
Age	59
Nationality	Saudi
Current Position	Director
Academic Qualifications	For details of CVs, see Section (5.3) "**Summary of the CVs of the Directors and Secretary of the Board**" of this Prospectus.
Work Experience	
Other positions	

Name	Majed bin Abdulghani Fakih
Age	48
Nationality	Saudi
Current Position	Director
Academic Qualifications	For details of CVs, see Section (5.3) "**Summary of the CVs of the Directors and Secretary of the Board**" of this Prospectus.
Work Experience	
Other positions	

Name	Sultan Fawaz Abdulaziz Al Hokair
Age	26
Nationality	Saudi
Current Position	Director
Academic Qualifications	For details of CVs, see Section (5.3) "**Summary of the CVs of the Directors and Secretary of the Board**" of this Prospectus.
Work Experience	
Other positions	

Name	Amr Mohamed Abdullah Kamel
Age	46
Nationality	Saudi
Current Position	Director
Academic Qualifications	For details of CVs, see Section (5.3) "**Summary of the CVs of the Directors and Secretary of the Board**" of this Prospectus.
Work Experience	
Other positions	

5.8.3 Executive Committee

The Executive Committee is composed of three members, including the CEO, to be appointed by the Board of Directors for a period of three years.

The responsibilities of the Executive Committee are summarized as follows:

- Review the Company's strategies and objectives and make recommendations in this regard, and review the operations and capital expenditures budget.
- Make recommendations to the Board of Directors on policies relating to the Company's financial position and ensure that the required financial adequacy is maintained in accordance with applicable laws as well as treasury operations including liquidity management, opening and closing of bank accounts and credit facilities, purchases, operating costs, debt management including write-off and disbursement of provisions, issuance of debt instruments and litigation.
- Review and make recommendations to the Board on business plans, operations and proposed financial plans.
- Supervise and receive strategic project reports and review the Company's policies and procedures, with the exception of accounting policies and procedures.
- Approve the annual operating plans and estimated financial budgets of the Company before they are submitted to the Board of Directors for approval.
- Approve borrowing to finance the Company's activities within the limits approved by the Board of Directors.

The Executive Committee consists of the following members:

Table (71): Members of the Executive Committee

Name	Position
Abdullah Ibrahim Al-Howaish	Chairman
Majed bin Abdulghani Fakih	Member
Khaled Abdulaziz Al Rayes	Member
Adel Hussein Ali Ahmed	Member
Abdullah Turki Sudairy	Member

Source: The Company.

The following is a brief overview of the members of the Executive Committee:

Name	Abdullah Ibrahim Al-Howaish
Age	58
Nationality	Saudi
Current Position	Director
Academic Qualifications	For details of CVs, see Section (5.3) "**Summary of the CVs of the Directors and Secretary of the Board**" of this Prospectus.
Work Experience	
Other positions	

Name	Majed bin Abdulghani Fakih
Age	48
Nationality	Saudi
Current Position	Director
Academic Qualifications	For details of CVs, see Section (5.3) "**Summary of the CVs of the Directors and Secretary of the Board**" of this Prospectus.
Work Experience	
Other positions	

Name	Khaled Abdulaziz Al Rayes
Age	39
Nationality	Saudi
Current Position	Director
Academic Qualifications	For details of CVs, see Section (5.3) "**Summary of the CVs of the Directors and Secretary of the Board**" of this Prospectus.
Work Experience	
Other positions	

Name	Adel Hussein Ali Ahmed
Age	42
Nationality	Emirati
Current Position	Director
Academic Qualifications	For details of CVs, see Section (5.3) "**Summary of the CVs of the Directors and Secretary of the Board**" of this Prospectus.
Work Experience	
Other positions	

Name	**Abdullah Turki Sudairy**
Age	45
Nationality	Saudi
Current Position	CEO (since 2014G)
Academic Qualifications	For details of CVs, see Section (5.4) "**Summary of the CVs of Administrative Staff**" of this Prospectus.
Work Experience	
Other positions	

5.8.4 Risk Committee

The Risk Committee is composed of at least four members, three of whom must be non-executives appointed by the Board of Directors for a period of three years after obtaining a letter of no objection from SAMA.

Below is a summary of the responsibilities of the Risk Committee:

- Develop clear and written risk management strategy and policies and identify all types of risks and how to deal with them, including at least the following risks:
  1. Credit risk.
  2. Market risk.
  3. Cash cost risk.
  4. Risk of asset-liability mismatch.
  5. Exchange rate risk.
  6. Liquidity risk.
  7. Operational risk.
  8. State risks.
  9. Legal Risks.
  10. Risks Related to Reputation
  11. Technical risks.
- Develop appropriate procedures for the early and comprehensive detection, assessment, management, monitoring and reporting of risks.

- Discuss the risk report on a quarterly basis and submit it to the Board of Directors including the decisions made in this regard.
- Review policies and regulations relating to risk management activities at least once a year to ensure that they are still appropriate and prudent and submit proposals thereon to the Board.
- Review the Company's general and specific provisions and set a maximum exposure to significant risks.
- Study the appropriate treatment of accounts in arrears.
- Assess and monitor the adequacy and effectiveness of the Company's risk framework and oversee the same to ensure that risks are identified, measured and effectively communicated, including determination of risk appetite and risk tolerance.
- Review internal and external audit reports relating to risks arising out of statutory requirements.
- Oversee and provide annual advice to the Board on existing and potential risks.
- Ensure that the Company does not take risks beyond the limits approved by the Board of Directors. For this purpose, the Committee shall periodically review the Company's existing risk assessment and its mitigation plans, as well as adopt, monitor and periodically review the key risk indicators.

The Risk Committee consists of the following members:

Table (72): Members of the Risk Committee

Name	Position
Majed bin Abdulghani Fakih	Chairman
Adel Hussein Ali Ahmed	Member
Mohammed Abdulaziz Alshaya	Member
Amr Mohamed Abdullah Kamel	Member
Abdullah Turki Sudairy	Member

Source: The Company.

The following is a brief overview of the members of the Risk Committee:

Name	Majed bin Abdulghani Fakih
Age	48
Nationality	Saudi
Current Position	Director
Academic Qualifications	For details of CVs, see Section (5.3) "**Summary of the CVs of the Directors and Secretary of the Board**" of this Prospectus.
Work Experience	
Other positions	

Name	Adel Hussein Ali Ahmed
Age	42
Nationality	Emirati
Current Position	Director
Academic Qualifications	For details of CVs, see Section (5.3) "**Summary of the CVs of the Directors and Secretary of the Board**" of this Prospectus.
Work Experience	
Other positions	

Name	Mohammed Abdulaziz Alshaya
Age	50
Nationality	Saudi
Current Position	Audit Committee Member
Academic Qualifications	For details of CVS, see Section (5.8.1) “**Summary of the CVs of Audit Committee Member**”.
Work Experience	
Other positions	

Name	Amr Mohamed Abdullah Kamel
Age	46
Nationality	Saudi
Current Position	Director
Academic Qualifications	For details of CVs, see Section (5.3) “**Summary of the CVs of the Directors and Secretary of the Board**” of this Prospectus.
Work Experience	
Other positions	

Name	Abdullah Turki Sudairy
Age	45
Nationality	Saudi
Current Position	CEO
Academic Qualifications	For details of CVs, see Section (5.4) “**Summary of the CVs of Administrative Staff**” of this Prospectus.
Work Experience	
Other positions	

5.8.5 Sharia Board

The Sharia Board consists of at least three members appointed by the Board of Directors. The session of the Sharia Board shall be related to the tenure determined by the Ordinary General Assembly for the members of the Board of Directors. Members of the Sharia Board must be experts in Sharia principles and hold at least a bachelor degree in comparative Fiqh (jurisprudence) or in Islamic economics from a university recognized by the Ministry of Education. Members must be familiar with financial transactions and recognized for their integrity and honesty. They must have at least three years of experience in one of the fields that contribute to Sharia qualification.

Below is a summary of the responsibilities of the Sharia Board:

- Review all the Company’s transactions including the establishment of subsidiaries and their activities, enter into partnerships with third parties, and perform Sharia-based control over the Company’s performance.
- Review contracts, agreements, forms, documents, instruments, and the like and issue the necessary decisions in this regard.
- Establish Sharia controls and standards for the Company’s activities.
- Contribute to the creation and development of products in light of the provisions of Islamic Sharia.
- Approve the standards of the Sharia Board and Sharia control standards.
- Study and issue the necessary Sharia-based performance reports.
- Establish Sharia controls for the amounts received from late fines and supervise their disbursement.
- Issue instructions to hold informational meetings and awareness seminars on topics related to the Sharia aspect of the Company’s business.

- Perform Sharia-based review of the Company's financial statements prior to their approval by the Board of Directors.
- Ensure Zakat is calculated according to Sharia principles.
- Issue the annual report on the Sharia-based performance of the Company for the Board of Directors and answer any questions it may receive.
- Evaluate the performance and administrative commitment of the Secretariat.
- Approve the appointment of the Secretary General of the Sharia Board.

The Sharia Committee is composed of the following members:

Table (73): Members of the Sharia Board

Name	Position
Dr. Abdul Sattar Abu Ghoddah	Chairman
Dr. Mohammed bin Ali Al-Qari	Vice Chairman
Dr. Yousef Al-Shubaily	Member

Source: The Company.

The following is a brief overview of the members of the Sharia Board:

Name	Dr. Abdul Sattar Abu Ghoddah
Age	78 years
Nationality	Syrian
Current Position	Chairman of the Sharia Board
Academic Qualifications	– Bachelor degree in Sharia, Damascus University, 1964 – Bachelor of Laws, Damascus University, 1965 – MA in Sharia, Al-Azhar University, 1966 – MA in Hadith Sciences, Al-Azhar University, 1967 – PhD in Sharia (Comparative Fiqh), Al-Azhar University, 1975
Work Experience	– Teaching the fundamentals of Fiqh, Institute of Imam Dawa, Riyadh, 1966 – Researcher, expert and rapporteur of the Encyclopedia of Islamic Jurisprudence, Ministry of Awqaf in Kuwait, 1967-1990 – Teaching Islamic Jurisprudence and Hadith, Institute for Religious Studies in Kuwait, 1974-1976 – Teaching university courses, Faculty of Sharia and Faculty of Law in Kuwait, 1983-1986 – Visiting Professor, Saleh Kamel Center for Islamic Economics (SKCIE), Al-Azhar University, 1990-1991 – Shari'ah Advisor and Director of Financial Instruments Development and Sharia Research, Dallah Albaraka Group, 1991-1992
Other positions	– Secretary General of Sharia Committee, Dallah Albaraka Group, 1992 – Member, Islamic Fiqh Academy in Jeddah – Expert, Islamic Fiqh Academy of Muslim World League in Makkah – Member, International Zakat Sharia Board, since its inception – Member of Accounting Standards Board and Member of Sharia Board of Accounting and Auditing Organization for Islamic Financial Institutions

Name	Dr. Mohammed bin Ali Al-Qari
Age	69
Nationality	Saudi
Current Position	Vice Chairman of the Sharia Board
Academic Qualifications	– Ph.D. in Economics, University of California, USA, 1984 – MA in Economics, the University of California, USA, 1981 – Bachelor degree in Economics, King Abdulaziz University, KSA, 1975
Work Experience	– Expert, International Fiqh Academy of the Organization of Islamic Conference and the Islamic World League, since 1985 – Director, Center for Islamic Economics Research, King Abdulaziz University, 2000G-2008G – Professor of Islamic Economics, King Abdulaziz University in Jeddah, from 1975 until retirement in 2008G
Other positions	– Member, Sharia Board of Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), since 2000G – Expert, International Fiqh Academy of Organization of Islamic Cooperation, since 2005G – Member, Scientific Committee of Islamic Research and Training Institute at Islamic Development Bank in Jeddah, 1990-1997 – Member, Sharia Committee of Dow Jones Islamic Market Index (New York), since 1998 – Member, Editorial Board of the Islamic Economic Studies Journal, Islamic Development Bank, since 1990 – Member and head of a range of Sharia boards and councils at financial institutions worldwide, since 1998G

Name	Dr. Yousef Bin Abdullah Al-Shubaily
Age	48
Nationality	Saudi
Current Position	Member of the Sharia Board
Academic Qualifications	– Ph.D. in comparative jurisprudence, Higher Judicial Institute, excellent grade with first honors, 2001G – MA in comparative jurisprudence, Higher Judicial Institute, excellent grade with first honors, 1997G – Bachelor in Sharia, Imam Muhammad ibn Saud Islamic University, excellent grade, 1994G
Work Experience	– Member, Advisory Board, Centre of Research Excellence in Contemporary Fiqh Issues, 2010G-2011G – Member, General Commission for the Guardianship of Trust Funds for Minors and their Counterparts, 2012G-2016G – Member, Board of Directors, Islamic Society for Islamic Banking, 2014G-2018G – Member, Saudi Fiqh Association, since 2005G – Member, Saudi Judicial Scientific Society, since 2009G
Other positions	Professor of comparative jurisprudence, Higher Judicial Institute, since 1997

5.9 Corporate Governance

The Company's policy is to adopt high standards of corporate governance. The Company's General Assembly adopted the internal governance regulations on 18/12/2018G. This is in addition to other regulations governing the membership, functions and responsibilities of the Board and its committees (the "Internal Governance System"). The Directors declare that the CMA Corporate Governance Regulations will be observed. On 16/05/1438H (corresponding to 13/02/2017G), the CMA issued the Corporate Governance Regulations, as amended on 15/9/1440H (corresponding to 20/05/2019G). The Corporate Governance Regulations outline the rules and standards governing the management of the Company to ensure compliance with the best corporate governance practices, which ensures protection of the rights of shareholders and stakeholders. The provisions of the Corporate Governance Regulations are mandatory, with the exception of those provisions referred to as indicative.

The Board of Directors also declares its compliance with the relevant laws and regulations issued by SAMA and the Board of Directors declares that it will abide by the CMA Corporate Governance Regulations after listing. These laws and regulations aim to establish the best standards and practices of corporate governance that protect the rights of Shareholders and stakeholders.

As of the date of this Prospectus, the Company is compliant with the mandatory provisions of the Corporate Governance Regulations, with the exception of the following provisions:

- Article (8)(a) "Upon calling for a meeting of the General Assembly, the Company shall announce information about the nominees for Board membership, including the nominees' experience, qualifications, skills and previous and current positions and memberships, on the Exchange's website. The Company shall make a copy of said information available at the Company's head office and on its website."
- Article (13)(d) "The date, place and agenda of the General Assembly must be announced at least twenty-one days prior to the date thereof and the invitation published on the Exchange's website, the Company's website and in a daily newspaper distributed in the province where the Company's head office is located. The Company may invite the General and Special Shareholders' Assemblies to convene using means of modern technologies."
- Article (14)(c) "When the invitation calling for a meeting of the General Assembly is published, the shareholders must be allowed to obtain information on the items of the General Assembly's agenda through the Company's website and the Exchange's website, in particular the reports of the Board and the external auditor, the financial statements and the Audit Committee's report, in order to enable them to make an informed decision with regard thereto. The Company shall update this information if the General Assembly's agenda is amended."
- Article (15)(d) "Shareholders shall be granted access to the minutes of the General Assembly meeting, and the Company shall provide the Authority with a copy of such minutes within ten days of the date of any such meeting."
- Article (15)(e) "The company shall announce to the public and inform the Authority and the Exchange of the results of the General Assembly meeting immediately following its conclusion, in accordance with the rules prescribed by the Authority."
- Article (17)(d) "The Company shall notify the Authority of the names of the Board members and description of their memberships within five business days from the commencement date of the Board term or from the date of their appointment, whichever is shorter, as well as any changes that may affect their membership within five business days from the occurrence of such changes."
- Article (19)(b) "Upon the termination of the membership of a Board member in any manner, the Company shall promptly notify the Authority and the Exchange and state the reasons for such termination."
- Article (19)(c) "If a member of the Board resigns and has observations on the Company's performance, they shall submit a written statement explaining such comments to the chairman of the Board and such statement shall be presented to the Board members."
- Article (22)(iii) "Setting forth specific and clear policies, standards and procedures for membership on the Board, without prejudice to the mandatory provisions of these Regulations, and implementing them following approval by the General Assembly."
- Article (41)(e) "The Board shall carry out the necessary arrangements to obtain an assessment of its performance from a competent third party every three years."
- Article (41)(f) "Non-executive Directors shall carry out a periodic assessment of the performance of the chairman of the Board after obtaining the opinions of the Executive Directors, without the chairman of the Board being present during the discussion of this matter, provided that weaknesses and strengths are identified and a solution proposed for the same in the best interests of the Company."
- Article (43)(vi) "Clear procedures when the Company contracts or enters into a transaction with a Related Party, this shall include notifying the Authority and the public without any delay of that contract or transaction if it equals to or exceeds 1% of the Company's total revenues according to the last annual audited financial statements."
- Article (60)(b) "Based on a proposal from the Board, the Company's General Assembly shall issue the remuneration committee's work regulations, which shall include the committee's work procedures and controls, its duties, the rules on the selection of its members, their membership term and their remuneration."
- Article (61)(i) "Preparing a clear policy for the remuneration of Board members, Board committees and the Executive Management, and presenting such policy to the Board in preparation for approval by the

General Assembly, provided that such policy follows standards that are linked to performance, and disclosing and ensuring the implementation of such policy."

- Article (68) "The Company shall publish the nomination announcement on the websites of the Company and the Exchange and through any other medium specified by the Authority in order to invite persons wishing to be nominated to membership on the Board, provided that the nomination period remain open for at least a month from the date of the announcement."
- Article (84) "The Board shall, based upon a proposal from the audit committee, develop the necessary policies and procedures to be followed by Stakeholders when submitting complaints or reporting any violations."

Article (90) "The Board's report shall include the Board's operations during the last fiscal year and all factors that affect the company's businesses". The Company is not currently in compliance with the above provisions of the Corporate Governance Regulations as it is a closed joint stock company and the Company's shares has not been listed on the Exchange. The Board of Directors undertakes to abide by these provisions immediately upon the issuance of the approval of the Authority to list the Company's shares in the Exchange. The Directors declare that the Company is currently in compliance with all other provisions of the Corporate Governance Regulations and the Companies Law. The Company has not yet amended the Bylaws - or made the subsequent amendments to the Company's Internal Governance Regulations - to comply with the recent amendments to the Corporate Governance Regulations issued by the CMA Board. The Board of Directors declares that the Bylaws will be amended at the first Extraordinary General Assembly to be held after the Offering. In addition, the Directors declare compliance with all decisions and instructions issued by the CMA in relation to the provisions of the Corporate Governance Regulations.

The Internal Governance System outlines the standards of the Company's corporate governance and the way each part of it operates to create an integrated governance system that includes the following:

- Shareholders' equity.
- The Board of Directors, including matters relating to its composition, membership and meetings, the manner in which its decisions are made, and its functions, powers and remuneration.
- Board Committees.
- Executive Management and Administrative Committees.
- Risk management and compliance.
- Control and internal audit.
- Conflict of interest policy.
- Disclosure and transparency.

The Internal Governance Regulations have been updated in line with the Corporate Governance Regulations issued by the CMA, and they were voted on and approved by the Shareholders at the General Assembly meeting on 21/05/2019G.

The Company has four Board Committees: The Executive Committee, the Risk Committee, the Audit Committee and the Remuneration and Nomination Committee. These committees review the Company's operations within its areas of expertise and report their findings and suggestions to the Board of Directors (for more details, see Section (5.8) "**Board Committees and the Sharia Board and the responsibilities thereof**").

The Company also has administrative committees to support its operations in specific activities requiring the cooperation of different departments and specific competencies. These committees are as follows:

- Executive Management Committee
- Performance Assessment Committee
- Assets and Liabilities Committee
- High Credit Committee
- High Risk Committee
- Cybersecurity Committee
- Expected Credit Loss Committee
- Information Technology Committee

The Internal Governance System aims to improve, regulate and support good corporate governance and ensure a high degree of transparency and compliance with the relevant laws and regulations.

Section (12.5.10) "**Agreements with Related Parties**" provides a summary of contracts and transactions with the Company in which a Director has a direct or indirect interest. Except as described in Section (12.5.10) and Table (74) "**Directors' business competing with the Company**", the Directors were not involved in any activities competing with the Company as of the date of this Prospectus. Following are the Directors who have business competing with the Company, and such business was approved by the General Assembly on 18/12/2018G.

Table (74): Directors' business competing with the Company

	Director Name	Competing activity	Additional Information
1	Faisal Abdullah Al Omran	Corporate and retail finance, corporate and retail real estate finance, sale of real estate financing portfolios	The Director is an employee of The Saudi Investment Bank that is engaged in providing banking services, including accepting deposits and providing financing services to its customers through its branches across the cities of the Kingdom.
2	Majed bin Abdulghani Fakih	Corporate and retail finance, corporate and retail real estate finance, sale of real estate financing portfolios	The Director is an employee of The Saudi Investment Bank that is engaged in providing banking services, including accepting deposits and providing financing services to its customers through its branches across the cities of the Kingdom.
3	Adel Hussein Ali Ahmed	Financing activities (including real estate financing) and investment such as Ijara, Murabaha, Mudaraba and Musharaka.	The Director is an employee of Amlak, a public joint stock company in the United Arab Emirates. It primarily performs financing activities (including real estate financing) and investment such as Ijara, Murabaha, Mudaraba and Musharaka.

5.10 Employees

The Company adopts an employment policy aimed at attracting and retaining the best competences to work for it through clear policies covering all aspects of human resources management including work schedules, health care, social security benefits, salary and other allowances and a competitive remuneration program, which includes shares of the Company for outstanding employees.

5.10.1 Number of employees

As of 30 June 2019G, the Company has 130 employees (113 of whom are Saudi nationals), while Amlak for Development has no employees. The following tables set out the distribution of the Company's employees by department and Saudization percentage.

Table (75): Company employees by sector as of 31 December 2016G, 2017G and 2018G and 30 June 2019G

Sector / Department	31 December 2016G			31 December 2017G			31 December 2018G			30 June 2019G		
	Saudi	Non-Saudi	Total	Saudi	Non-Saudi	Total	Saudi	Non-Saudi	Total	Saudi	Non-Saudi	Total
Marketing & Strategy Group	5	0	5	5	1	6	5	0	5	6	0	6
Corporate Segment	12	2	14	15	2	17	13	2	15	14	4	18
Retail Segment	23	3	26	23	3	26	37	2	39	43	2	45
Investment Segment	1	1	2	0	1	1	0	1	1	0	0	0
Credit and Risk Group	13	2	15	13	2	15	12	2	14	12	3	15
Finance, Operations and IT Group	12	5	17	16	4	20	16	4	20	17	4	21
Human and Administrative Resources Group	8	1	9	8	1	9	8	1	9	9	1	10

Sector / Department	31 December 2016G			31 December 2017G			31 December 2018G			30 June 2019G		
	Saudi	Non-Saudi	Total	Saudi	Non-Saudi	Total	Saudi	Non-Saudi	Total	Saudi	Non-Saudi	Total
Governance and Legal Group	2	0	2	4	0	4	4	0	4	4	0	4
Compliance and Anti-Money Laundering Department	2	0	2	3	0	3	4	0	4	4	0	4
Internal Audit Department	2	2	4	1	2	3	0	2	2	1	2	3
Office of the Managing Director and CEO	3	2	5	3	2	5	3	1	4	3	1	4
Total	**83**	**18**	**101**	**91**	**18**	**109**	**102**	**15**	**117**	**113**	**17**	**130**

Source: The Company. Note: Does not include outsourced staff.

The following table shows the number of employees and Saudization percentage as of 31 December 2016G, 2017G and 2018G and 30 June 2019G:

Table (76): Number of employees and Saudization percentage as of 31 December 2016G, 2017G and 2018G and 30 June 2019G

31 December 2016G				31 December 2017G				31 December 2018G				30 June 2019G			
Saudi	Non-Saudi	Total	Saudization % / category	Saudi	Non-Saudi	Total	Saudization % / category	Saudi	Non-Saudi	Total	Saudization % / category	Saudi	Non-Saudi	Total	Saudization % / category
83	18	101	82.2%	91	18	109	83.5%	102	15	117	87.2%	113	17	130	86.9%

Source: The Company.

The Company had 101 employees as of 31 December 2016G. The number of employees increased by 7.9% to 109 employees as of 31 December 2017G, by 7.3% to 117 employees as of 31 December 2018G and then by 11.1% to 130 employees as of 30 June 2019G.

5.10.2 Saudization

The Saudization Program "Nitaqat" was approved pursuant to Minister of Labor Resolution No. 4040 dated 12/10/1432H (corresponding to 10/09/2011G), based on Council of Ministers Resolution No. 50 dated 21/5/1415H (corresponding to 27/10/1994G), which was implemented as of 12/10/1432H (corresponding to 10/09/2011G). The Ministry of Labor initiated the "Nitaqat" Program to provide incentives to institutions to employ Saudi citizens. This program assesses the performance of any institution based on certain categories, i.e. platinum, green (classified into three sub categories, low green, medium green, high green), yellow, and red. Establishments classified within the platinum and green categories are deemed in compliance with Saudization requirements and receive some specific benefits, such as being able to obtain or renew work visas for foreign employees or change the profession of the foreign employees (except for professions allocated only to Saudi nationals). Enterprises categorized as yellow and red (based on the extent of compliance by such enterprises) are deemed noncompliant with Saudization requirements and are subject to penalty actions, such as limiting their ability to renew work visas for foreign employees or not allowing them to obtain or renew work visas for foreign employees.

The Company is classified within the platinum category. For the Nitaqat classification of the Company, See Table ([75]) above "**Number of employees and Saudization percentage as at 31 December 2016G, 2017G and 2018G**".

5.11 Administrative Departments of the Company

The following are the details of the Company's administrative departments:

5.11.1 Marketing & Strategy Group

The role of the Strategy and Marketing Group is to:

- Support all sectors by defining the objectives of the Company and each sector in the long and short term, and build the optimal action plans to achieve those objectives.
- Review and restructure the Company's policies and procedures and align them with the Company's strategies and action plans
- Modify and develop the Company's current products, and create new products in line with the condition of the real estate finance market and target groups and segments.
- Participate with the marketing sector to support the business with appropriate sales opportunities via marketing campaigns.

5.11.2 Corporate Segment

The role of the Corporate Segment is to:

- Provide Sharia-compliant financing solutions and products through review and approval by the Company's Sharia Committee and target corporate and investor requirements.
- Establish long-term relationships with customers.

5.11.3 Retail Segment

The role of the Retail Segment is as follows:

- Meet the needs of retail customers by providing financing solutions in line with their income level, taking into account their general circumstances and living conditions.
- Provide a range of added services for the retail segment such as the inquiry system, which provides an inquiry service for individuals around the clock.
- Participate in projects offered by the Ministry of Housing in order to diversify the Company's financing portfolio and contribute to subsidized housing projects.

5.11.4 Investment Segment

The Company's Investment Segment makes several investments in a number of residential real estate projects through multiple partnerships with a group of Saudi real estate developers. In line with the relevant laws, the Real Estate Finance Law and the license granted by SAMA in 2014G, the Company has complied with ceasing capital investments in real estate projects, and is currently terminating these projects. The Company is expected to exit these projects by the end of 2020G.

5.11.5 Credit and Risk Group

The Credit and Risk Group's functions are summarized as follows:

- Manage the credit risk of companies and individuals and related activities such as contract archiving and customer collection.
- Ensure the quality of the credit portfolio and establish a mechanism for identifying, measuring and correcting risks to the Company.
- Deal with risk within an integrated framework that includes management of operational, market, legal, reputation, liquidity and cyber-security risks.

5.11.6 Finance, Operations and IT Group

The role of the Finance, Operations and IT Group is as follows:

- Apply and execute the Company's financial procedures, make financing decisions, perform hedging operations and cash management.
- Support processes related to the registration, management and control of the Company's current and prospective customers' information.
- Implement after-sales services including analysis, review and update of customer and finance data.
- Ensure continuous development by updating the Company's systems in compliance with standards on the protection of customer information, and meet the Company's needs for the reports and information necessary to run its business.
- Prepare financial statements and administrative and supervisory reports.

5.11.7 Human and Administrative Resources Group

The functions of the Human and Administrative Group are as follows:

- Develop strategic and operational plans to attract, develop and maintain appropriate Saudi talent.
- Provide administrative support to all sectors of the Company.
- Implement development programs and projects related to developing technical and leadership skills and motivate employees to achieve the highest results.
- Ensure Saudization ratios are met in all Company sectors.
- Make the necessary initiatives to improve work environment and raise job satisfaction levels.

5.11.8 Governance and Legal Group

The functions of the Governance and Legal Group are as follows:

- Frame the Company's governance in line with the Companies Law, financing laws and regulations, and SAMA circulars, regulations and controls; implement the CMA's laws and regulations (after the Company's shares are listed on Tadawul).
- Provide the necessary legal advice to all segments and departments of the Company according to the nature of daily business.
- Manage and monitor the cases assigned thereto and represent the Company before the judicial authorities.
- Provide technical and administrative works to support the Sharia Board's Secretariat in achieving its objectives and performing its work through a comprehensive study of the Company's transactions and activities, prepare them for submission to the Sharia Board for necessary actions, and follow up their implementation and compliance therewith.

5.11.9 Compliance and Anti-Money Laundering Department

The functions of the Compliance and Anti-Money Laundering Department are as follows:

- Monitor any new laws or amendments thereto and reflect these amendments and developments in the Company's internal policies and procedures, to ensure full compliance with the regulations and laws on financial crimes issued by the legislative authorities, especially those concerning money laundering and terrorist financing.
- Prepare compliance reports, assess compliance and anti-money laundering risks faced by the Company in addition to existing processes and procedures and propose any amendments or changes thereto.
- Provide training courses for the Company's employees covering compliance, AML and CFT topics.
- Review, update and circulate money laundering and terrorist financing suspicion indicators to the Company's employees to act thereunder.

5.11.10 Internal Audit Department

The functions of the Internal Audit Department are as follows:

- Review the Company's work and procedures and assess their compliance with the policies, controls and procedures established by the Board of Directors and its committees and evaluate their compliance with the Company's applicable regulations.
- Implement approved plans and policies to evaluate and improve the effectiveness of internal control, risk management and governance to ensure that they are in line with best practices and standards.
- Submit quarterly reports to the Audit Committee containing observations and weaknesses regarding the application of internal control procedures.
- Examine the potential impact of weaknesses by applying internal control procedures to the Company's business procedures and transactions.
- Develop appropriate mechanisms to deal with internal audit observations to assess and improve governance and risk management processes.

5.11.11 VAT Committee (Interim Administrative Committee)

Under a letter from the CEO dated 17/04/1439H (corresponding to 04/01/2018G), the CEO formed a committee to decide on VAT transactions that are not clearly applicable. The Committee was composed of the following members:

Name	Title	Committee Membership
Ali Alshashaa	Finance, Operations and IT Director	Chairman
Turki Al Zahrani	Strategy & Marketing Director	Member
Ali Al Jarbou	Director of Legal Department	Member
Esam Al Raddadi	Finance and Planning Director	Member
Khalid Al Sabeel	Product Development Director	Member

The functions of the Committee are to adopt the necessary decisions on any tax transactions that are not clearly applicable and establish the necessary justifications. The Committee shall be convened when necessary by the Chairman or one of the members. The decisions shall be made in accordance with the VAT Regulations and by majority vote. The Committee shall continue its work until 31/03/2018G. The Committee's work was extended to 31/12/2018G by Letter No. (CEO18_044) dated 11/07/1439H (corresponding to 28/03/2018G).

6. Management's Discussion and Analysis of the Company's Financial Position

6.1 Financial Information and Management's Discussion and Analysis

6.1.1 Introduction

The Management's Discussion and Analysis of Amlak International for Real Estate Finance Company ("Amlak" or "the Company") provides an analytical review of the Company's operational performance and financial position during the years ended 31 December 2016G, 2017G, 2018G and the six-month ending in 30/06/2019G. This section and the accompanying notes have been prepared on the basis of the consolidated financial statements of the financial years 2016G, 2017G and 2018G prepared by the Company's auditors, Ernst & Young (for the financial year 2016G) and KPMG Al Fozan & Partners (Public Accountants) (for the financial years 2017G and 2018G) in accordance with IFRS for Amlak.

Neither KPMG Al Fozan & Partners (Public Accountants) nor Ernst & Young (as part of the team working for Amlak), or their subsidiaries or any of their employees' relatives own any shares or stock of any kind in Amlak that would impair their independence. As of the date of this Prospectus, KPMG Al Fozan & Partners (Public Accountants) and Ernst & Young have given and not withdrawn their written consent to the reference in this Prospectus to their role as auditors of Amlak for the financial years ended 31 December 2016G, 2017G and 2018G.

This Section might include forward-looking statements related to the Company's future capabilities, based on the management's plans and prospects as to its growth, results of operations and financial condition that could involve prospective risks and uncertainties. The Company's actual results could differ materially from those anticipated as a result of numerous factors, risks and future events, including those discussed in this Section of the Prospectus or elsewhere thereof, particularly Section (2) "**Risk Factors**". It should be noted that the figures in this Section have been rounded off to the nearest thousand riyals. As such, if totaled, the numbers may differ from those stated in the tables. Subsequently, all annual percentages, indicators, expenses and accumulated CAGRs are based on the rounded figures.

6.1.2 Directors' Declarations on the Financial Statements

The Company has prepared the financial statements in accordance with the International Financial Reporting Standards ("IFRS") for the years 2016G, 2017G and 2018G issued by the International Accounting Standards Board as approved in Saudi Arabia and other standards and statements issued by the Saudi Organization for Certified Public Accountants (SOCPA) in addition to the accompanying notes. This is in accordance with Article (71) of the Implementing Regulations of the Law on Supervision of Finance Companies, which requires the Company to prepare the financial statements in accordance with IFRS as amended by SAMA for the calculation of zakat and income tax.

The Directors declare that the financial information contained in this Prospectus is derived without material changes from the financial statements for 2016G, 2017G and 2018G and prepared on a consolidated basis. The Board of Directors also declares that the Company's financial statements were prepared in accordance with IASB International Financial Reporting Standards ("IFRS") as amended by SAMA for the calculation of zakat and income tax for 2016G, 2017G and 2018G, as provided in Article (71) of the Implementing Regulations of the Law on Supervision of Finance Companies issued by SAMA. Under such Article, the Company is required to prepare the financial statements in accordance with IFRS as amended by SAMA for the calculation of zakat and income tax.

The Directors also declare that the Company, individually or jointly with its subsidiary, has sufficient working capital for 12 months from the date of this Prospectus.

The Directors declare that there has been no material adverse change in the financial or trading position of the Company or its Subsidiary during the three years immediately preceding the year the application for admission and offering of the securities subject to this Prospectus was submitted, or during the period covered by the chartered accountant's report until the approval of this Prospectus.

The Directors declare that the Company has no intention of making any fundamental change in the nature of its activity.

The Directors confirm that all material facts regarding the Company and its financial performance have been disclosed in this Prospectus, and that there are no other facts the omission of which would make any statement herein misleading.

The Directors declare that the Company's operations have not been discontinued in such a way as to affect or have significantly affected the financial position in the last 12 months.

The Directors confirm that the Company and its Subsidiary did not provide any commissions, discounts, brokerages or other non-cash compensation in connection with the issuance or offering of any securities within the three years immediately preceding the date the application for admission and offering of the securities subject to this Prospectus was submitted.

The Directors confirm that the Company's capital is not under option.

The Directors declare that the Company has presented comprehensive details in this Section of any potential liabilities (for more information, see Section (6.7) of this Prospectus) and has calculated and recorded a provision for such as stated in this discussion. The Board confirms that a program has been approved by the General Assembly concerning the granting of shares to some employees as performance bonuses in accordance with the procedures and conditions of the program set out in this Prospectus.

The Directors declare that the properties of the Company and its Subsidiary are not subject to any mortgages, rights or encumbrances as of the date of this Prospectus.

The Directors declare that the Company has presented comprehensive details in this Section of all fixed assets and investments, including contractual securities and other assets whose value is volatile or difficult to estimate (excluding finance portfolios to cover bank financing).

The Directors declare that the Company has not issued, existing or approved but unissued debt instruments, term loans or secured or unsecured mortgages, except as disclosed in Section (12.5.1) "**Real Estate Financing Agreements**".

6.1.3 Summary of significant accounting policies and basis of preparation

The Company's financial statements have been prepared:

- a- In accordance with IFRS as amended by SAMA for the calculation of zakat and income tax, which requires the application of all International Financial Reporting Standards issued by IASB with the exception of IAS 12 - "Income Taxes" and IFRIC 21 - "Levies" which have not yet been applied as they relate to zakat and income tax.
- b- In accordance with the Companies Law in force in the Kingdom of Saudi Arabia and the Company's Bylaws.

Basis of measurement

The financial statements were prepared on historical cost basis, with the exception of investments measured at FVOCI or available-for-sale investments and derivatives.

Functional and presentation currency

These financial statements are presented in Saudi Riyals (SAR), which is the functional currency of the Company. Unless otherwise indicated, the financial information presented has been rounded off to the nearest thousand Saudi riyals.

Summary of significant accounting policies

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

A. Change in accounting policies

The accounting policies used in the preparation of these financial statements are consistent with those used in the preparation of the annual financial statements for the period.

Application of new standards

As of 1 January 2018G, the Company applied IFRS 15 - Revenue from Contracts with Customers and IFRS 9 - Financial Instruments. The impact of the application of these standards is described below:

IFRS 15 - Revenue from Contracts with Customers

IFRS 15 was issued in May 2014G and is effective for annual periods beginning on or after 1 January 2018G. IFRS 15 defines one comprehensive accounting model for revenue from contracts with customers and supersedes previously issued revenue guidance, which is now reflected in various IFRS standards and interpretations. This standard creates a new five-step model and applies to revenue from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The adoption of this standard did not have any significant impact on the Company's financial statements.

IFRS 9 - Financial Instruments

The Company applied IFRS 9 - Financial Instruments issued in July 2014G with an initial adoption date of 1 January 2018G. The requirements of IFRS 9 represent a significant change from IAS 39 - Financial Instruments: Recognition and measurement. The new standard introduces fundamental changes to the accounting of financial assets and certain accounting aspects of financial liabilities.

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

Following is a summary of the main changes in the Company's accounting policies due to its application of IFRS 9.

Classification of financial assets and financial liabilities

IFRS 9 includes three main classification categories for financial assets: Financial assets measured at amortized cost, at fair value through other comprehensive income and at fair value through profit or loss. This classification is generally based on the business model whereby financial assets and contractual cash flows are managed, except for equity securities and derivatives. This standard eliminates the existing IAS 39 categories of: held to maturity, loans and advances and available for sale.

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

- The amount of the change in fair value attributable to changes in the credit risk of the liabilities is recognized in other comprehensive income.
- The remaining amount of the change in fair value is recognized in profit or loss.

For clarification on how the Company classifies its financial liabilities and assets in accordance with IFRS 9, see the section on significant accounting policies.

Impairment of financial assets

IFRS 9 replaces the IAS 39 "incurred losses" model with the "expected credit losses" model. Under IFRS 9, the Company is required to make a provision for expected credit losses for all loans and other debt and financial assets not retained at fair value through profit or loss along with loan obligations and financial guarantee contracts (if any). This provision is based on the expected credit losses related to any potential default in the next twelve months unless there is a significant increase in credit risk since its inception. If a financial asset meets the definition of purchased or originated impaired credit, the provision shall be based on a change in the expected credit loss to the life of the asset. Purchased or originated credit-impaired financial assets are credit-impaired financial assets at initial recognition. Purchased or originated credit-impaired financial assets are initially recognized at fair value upon the original recognition, and interest income is subsequently recognized at credit-adjusted EIR. The expected credit losses are recognized or derecognized only to the extent that the subsequent change in the expected credit loss occurs.

Under IFRS 9, expected credit losses are recognized at an earlier stage compared to IAS 39. For an explanation of how the Company applies the impairment requirements of IFRS 9, see the section on significant accounting policies.

To demonstrate the differences between IFRS 9, IAS 39 and IFRS 7 - Financial Instruments the disclosures have been updated and approved by the Company with IFRS 9 for the year beginning 1 January 2018G. The changes include the disclosures of the transition as described in this note, and qualitative and quantitative information on the calculation of expected credit losses such as assumptions and inputs used.

Adjustments resulting from the opening to closing provisions for the expected credit losses are shown in these financial statements. In addition, IFRS 7 requires more detailed disclosures of hedge accounting, even in case of entities that have elected to continue to apply the hedge accounting requirements of IAS 39.

Transition

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

Comparative periods have not been adjusted. The difference in the carrying amounts of financial assets and financial liabilities arising from the adoption of IFRS 9 is recognized in retained earnings and reserves as of 1 January 2018G. Accordingly, the information presented for 2017G does not reflect the requirements of IFRS 9.

- The assessments below were conducted on the basis of the facts and circumstances as of the date of initial adoption.

    1. The determination of the business model within which a financial asset is held.
    2. The designation of certain investments in equity instruments not held for trading as FVOCI.

Financial assets and financial liabilities

1- Classification of financial assets and financial liabilities at the date of initial adoption of IFRS 9

The table below presents the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for the Company's financial assets and financial liabilities as of 1 January 2018G:

Table (77): The Company's financial assets and financial liabilities as of 1 January 2018G

(SAR'000)	Classification under IAS 39	New classification under IFRS 9	Original book value under IAS 39	New book value under IFRS 9
Financial assets				
Cash and cash equivalents	Loans and advances	Amortized cost	29,634	29,634
Equity investments	Available for sale	FVTOCI	12,887	12,887
Murabaha receivables, net	Loans and advances	Amortized cost	260,749	252,368
Ijara payables, net	* N/A	* N/A	2,744,421	2,714,053
Ijara mawsofa fi athemmah receivables, net	* N/A	* N/A	116,696	117,639
Other assets	Loans and advances	Amortized cost	9,835	9,835
			3,174,222	**3,136,416**

(SAR'000)	Classification under IAS 39	New classification under IFRS 9	Original book value under IAS 39	New book value under IFRS 9
Financial liabilities				
Bank loans	Amortized cost	Amortized cost	2,072,175	2,072,175
Accrued expenses and other liabilities	Amortized cost	Amortized cost	21,637	21,637
			2,093,812	**2,093,812**

* The classification of these financial assets is subject to the requirements of IAS 17 and not to IFRS 9. However, these financial assets are subject to the de-recognition and impairment requirements of IFRS 9.

2- Reconciliation of book values under IAS 39 with book values under IFRS 9 upon application of IFRS 9

The table below presents a reconciliation of carrying values under IAS 39 with the carrying values under IFRS 9 upon transition to IFRS 9 on 1 January 2018G:

Table (78): Comparison of carrying amounts under IAS 39 and IFRS 9 as of 1 January 2018G

(SAR'000)	Carrying value under IAS 39 as of 31 December 2017G	Reclassification	Re-measurement	Carrying amount under IFRS 9 as of 1 January 2018G
Financial assets				
Murabaha receivables	260,749	-	(8,381)	252,368
Ijara receivables	2,744,421	-	(30,368)	2,714,053
Ijara mawsofa fi athemmah receivables	116,696	-	943	117,639
Available-for-sale investment	12,887	(12,887)	-	
Investments at fair value through other comprehensive income	-	12,887	-	12,887
Total financial assets	**3,134,753**	**-**	**(37,806)**	**3,096,947**

There has been no reclassification or re-measurement other than of the Company's financial assets and financial liabilities above upon the adoption of IFRS 9 as of 1 January 2018G.

3- Impact on retained earnings and reserves

Table (79): Impact on retained earnings and reserves

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

4- The table below shows the carrying amount of financial assets and financial liabilities in the statement of financial position under IFRS 9.

Table (80): Carrying amount of financial assets and financial liabilities in the statement of financial position under IFRS 9

	31 December 2018G		
(SAR'000)	**Fair value through other comprehensive income - equity investments**	**Amortized cost**	**Total book value**
Financial assets			
Cash and non-cash equivalent	-	15,965	15,965
Investments at fair value through other comprehensive income	12,484	-	12,484
Murabaha receivables	-	108,256	108,256
Ijara receivables	-	2,902,822	2,902,822
Ijara mawsofa fi athemmah receivables	-	79,662	79,662
Other assets	-	5,749	5,749
Total financial assets	**12,484**	**3,112,454**	**3,124,938**
Financial liabilities			
Bank loans	-	1,994,132	1,994,132
Other liabilities	-	16,535	16,535
Total financial liabilities	**-**	**2,010,667**	**2,010,667**

	1 Jan 2018G		
(SAR'000)	**Fair value through other comprehensive income - equity investments**	**Amortized cost**	**Total book value**
Financial assets			
Cash and non-cash equivalent	-	29,634	29,634
Investments at fair value through other comprehensive income	12,887	-	12,887
Murabaha receivables	-	252,368	252,368
Ijara receivables	-	2,714,053	2,714,053
Ijara mawsofa fi athemmah receivables	-	117,639	117,639
Other assets	-	9,835	9,835
Total financial assets	12,887	3,123,529	3,136,416
Financial liabilities			
Bank loans	-	2,072,175	2,072,175
Other liabilities	-	21,637	21,637
Total financial liabilities	**-**	**2,093,812**	**2,093,812**

Policies applicable from 1 January 2018G

Classification of financial assets

Financial assets are classified on initial recognition and measured as follows: at amortized cost, at fair value through other comprehensive income or at fair value through profit or loss.

Financial assets at amortized cost

Financial assets are measured at amortized cost if both conditions below are met and if they are not recognized at fair value through profit or loss:

- An asset is retained within a business model that is intended to hold assets for contractual cash flows, and
- Its contractual periods fall on specific dates of cash flows that represent only payments for the principal and the interest on the outstanding principal.

Financial assets at fair value through other comprehensive income

Debt securities: Debt securities are measured at fair value through other comprehensive income if they meet both of the following conditions, and they are not designated at fair value through profit or loss:

- An asset is retained in a business model that can be achieved by collecting contractual cash flows and selling financial assets, and
- Its contractual periods fall on specific dates of cash flows that represent only payments for the principal and the interest on the outstanding principal.

Debt securities measured at fair value through other comprehensive income are subsequently re-measured at fair value with gains and losses from changes in fair value recognized in other comprehensive income. Interest income and FX gains and losses are recognized in profit or loss.

Equity securities: Upon initial recognition of investments in shares that are not held for trading, the Company may ultimately elect to present subsequent changes in the fair value of the investment in other comprehensive income. This choice is made on an instrument-by-instrument basis.

Financial asset at FVTPL

All other financial assets are classified as measured at FVTPL.

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

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

Classification of financial assets

Business model assessment

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

- Stated portfolio policies and objectives and the application of these policies; specifically, whether management's strategy focuses on earning contractual profit revenue, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Company's management;
- Risks affecting the performance of the business model (and financial assets held within the business model) and how these risks are managed;
- How managers of the business are compensated, e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

- Frequency, volume and timing of sales in previous periods, the reasons for these sales and expectations regarding future sales. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realized.

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

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

Assessments of whether contractual cash flows are solely payments of principal and profit

For the purpose of this valuation, "principal" is the fair value of the financial assets at initial recognition. "Profit" is the consideration for the time value of money, the credit and other basic lending risk associated with the principal amount outstanding during a particular period and other basic lending costs (e.g., liquidity risk and administrative costs), along with profit margin.

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

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Company's claim to cash flows from specified assets (e.g., non-recourse asset arrangements); and
- Features that modify consideration of the time value of money, e.g., periodic reset of profit rates.

Classification of financial liabilities

The Company classifies its financial liabilities as being measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on issue of finance and other costs that are an integral part of the effective interest rate.

De-recognition

Financial assets

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

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

1. The consideration received (including any new asset obtained less any new liability assumed); and
2. Any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss.

From 1 January 2018G, any cumulative gain/loss recognized in OCI with respect to equity investment securities designated as at FVOCI is not recognized in profit or loss on de-recognition of such securities. Any interest in transferred financial assets eligible for de-recognition that are created or retained by the Company is recognized as separate assets or liabilities.

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

In certain transactions, the Company retains the obligation to service the transferred financial assets in return for fees. Transferred assets are derecognized if the derecognition conditions are met. An asset or a liability for a service contract is recognized if the service charge is sufficient (assets) or insufficient (liabilities) to perform the service.

Financial liabilities

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

Amendments to financial assets and financial liabilities

Financial assets

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

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

Financial liabilities

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

Impairment

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

- Murabaha receivables;
- Ijara receivables, and
- Ijara mawsofa fi athemmah receivables
- No impairment loss is recognized on equity investments.

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

- Debt investment securities that are determined to have low credit risk at the reporting date, and
- Other financial instruments on which credit risk has not increased significantly since their initial recognition.

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

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

Measurement of ECL

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

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

Restructured financial assets

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

- If the expected restructuring will not result in de-recognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset; and
- If the expected restructuring will result in de-recognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its de-recognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of de-recognition to the reporting date using the original effective profit rate of the existing financial assets.

Credit-impaired financial assets

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

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

- Significant financial difficulties facing the borrower or issuer.
- A breach of contract such as a default or past due event;
- The restructuring of a loan by the Company on terms that the Company would not consider otherwise; or
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

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

Presentation of allowance for ECL in the statement of financial position

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

Write-off

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

Collateral valuation

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

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

Collateral repossessed

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

Income/expense recognition

Income and expenses

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

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

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

Measurement of amortized cost and income

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

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

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

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

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

Policies applied before the adoption of IFRS 9

Cash and cash equivalents

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

Murabaha receivables

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

Ijara receivables

Ijara receivables represent assets transferred under a finance lease under an Islamic lease agreement and the present value of the lease payments is recognized as a receivable and disclosed under "Ijara receivables". The difference between the gross receivables and the present value of the receivables is recognized as unearned Ijara income. Ijara income is recognized over the term of the Ijara using the net investment method, which reflects a constant periodic rate of return.

Ijara mawsofa fi athemmah

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

Available-for-sale investment

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

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

When an investment is sold, the cumulative gain or loss in equity is reclassified to profit or loss.

Impairment of financial assets

A financial asset or group of financial assets is classified as impaired when there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of a financial asset or a group of financial assets and that loss event(s) has an impact on the future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that financial assets are impaired includes:

- Significant financial difficulty of-the borrower;
- Default or delinquency in principal payments;
- Restructuring of Ijara receivables by the Company on terms that the Company would not consider otherwise;
- Indications that a borrower will enter bankruptcy; or
- Observable data relating to a group of assets such as negative changes in the borrower's repayment position or economic conditions associated with default with regard to such group.

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired at the statement of financial position date. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognized for changes in it carrying amounts.

Once a financial asset has been written down to its estimated recoverable amount, income is thereafter recognized based on the rate of income that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. In general, the Company considers a decline of 20% to be “significant” and a period of nine months to be “prolonged”. However, in specific circumstances a smaller decline or a shorter period may be appropriate.

When a financial asset is uncollectible, it is written off against the related impairment allowance for credit losses either directly by a charge to the statement of profit or loss or through a provision for the impairment account. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted, and the amount of the loss has been determined.

If the amount of the impairment loss decreases in the subsequent period and the decrease can be objectively measured for an event occurring after the impairment was recognized (such as an improvement of the borrower’s credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of reversal is recognized in the statement of profit or loss in the provision for impairment of credit losses.

Investments in joint ventures

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

The Company’s investments in the JV are accounted for using the equity method.

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

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment in value. The cost less estimated residual value of property and equipment is depreciated on a straight-line basis over the estimated useful lives of the assets.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, i.e. the higher of their fair value less costs to sell and their value in use.

Leasehold improvements are amortized 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 capitalized.

The estimated useful lives of the main asset classes are as follows:

Table (81): Estimated useful lives of the main asset classes

	Years
Leasehold improvements	Shorter of 10 years or lease term
Furniture and fixtures	6
Office equipment	5
IT equipment	3 to 5 years

Accrued expenses and other current liabilities

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

Provisions

Provisions are recognized 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 liabilities

Initial recognition and measurement

The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value. Financial liabilities of the Company include accounts payable, bank borrowings and derivative financial instruments.

Gains and losses are recognized in the statement of profit or loss when the liabilities are no longer recognized.

De-recognition of financial liabilities

A financial liability (or a part of a financial liability) can be recognized when it is extinguished when the obligation specified in the contract is discharged, canceled or expires.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount thereof is reported in the statement of financial position if there is a currently enforceable legal right requiring the company to offset recognized amounts and the company intends to settle the same on a net basis or sell assets and settle liabilities simultaneously. Income and expenses are not offset in the statement of profit or loss unless required or permitted by an accounting standard or interpretation, as specifically disclosed in the Company's accounting policies.

Derivative financial instruments and hedge accounting

The Company uses derivative financial instruments to hedge its exposure to commission rates. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured 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 recognized 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 recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized 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 recognized 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 recognized in equity is transferred to the statement of profit or loss for the period.

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 ("GAZT") as applicable in the Kingdom of Saudi Arabia.

Employees' end of service 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.

Re-measurements for actuarial gains and losses are recognized 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. Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service cost is recognized in profit or loss on the earlier of:

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

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

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

Expenses

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

Fee and commission income and expenses

Fee income and expenses that are part of the effective interest rate of a financial asset or liability are recognized in the effective interest rate. Other fee and commission income are recognized when the related services, including service income, are provided. Other fees are primarily related to transaction and service fees that are charged as expenses upon receipt of the services.

Borrowing costs

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

Operating leases

Operating lease payments are recognized as expenses in the statement of profit or loss on a straight-line method basis over the lease contract period.

Statutory reserve

In accordance with the Saudi Companies Law and the Company's Bylaws, 10% of the annual net income (after zakat and absorption of accumulated losses), is transferred to a statutory reserve. This reserve is not available for distribution. In accordance with the Bylaws, the Company may decide to discontinue such transfers when the reserve totals 30% of its capital.

Fair value measurement

The Company measures financial instruments such as derivatives and equity instruments at fair value at each reporting date. The fair values of financial instruments measured at amortized cost are disclosed in the Company's financial statements.

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

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

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

The Company uses appropriate valuation techniques for which sufficient data have been provided to measure fair value, maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

All assets and liabilities whose fair value is measured or disclosed in the financial statements are classified in the fair value hierarchy, as shown below, based on the lowest level of main inputs for entire fair value measurement.

- **Level 1**: Quoted (unadjusted) prices in active markets for identical assets or liabilities.
- **Level 2**: Inputs other than the quoted prices in determined in Level 1 that are observable directly (such as prices) or indirectly (such as derived from prices). This category includes evaluated instruments using: Market prices traded in active markets for similar instruments, quoted prices of the same or similar instruments in markets that are not active, or other valuation techniques in which all significant inputs can be directly or indirectly observed from market data.
- **Level 3**: Valuation techniques where the lowest level of significant input of the fair value measurement is unobservable.

For assets and liabilities that are recognized on a recurring basis in the financial statements, the Company determines whether transfers are made between levels of the hierarchy by classification re-measurement (based on the minimum inputs that are significant to whole fair value measurement) at the end of each reporting period.

At each of statement of financial position date, the Company's management analyzes the movement in the amounts of assets and liabilities required to be re-measured or revalued in accordance with the Company's accounting policy. For this analysis, the group verifies the significant inputs used in the last measurement by collecting information on the valuation computation of contracts and other relevant documents.

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.

Foreign currencies

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

Segment reporting

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

Other real estate assets

The Company acquires certain properties in exchange for the settlement of joint ventures and Murabaha, Ijara and Ijara mawsofa fi athemmah receivables. These properties are considered as available-for-sale assets and are initially recognized at the net realizable value of the receivables or joint ventures and the current fair value of the related properties less any selling costs, whichever is lower.

Critical accounting judgments, estimates and assumptions

The preparation of the financial statements requires the management to make judgments, estimates and assumptions that may affect the application of accounting policies and the reported amount of assets, liabilities, revenues and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Adjustments to estimates are subsequently recognized. Following are significant areas where the management has used estimates and assumptions or judgment:

Impairment of financial assets

Upon determination of impairment losses and assessment of significant increase in credit risk, the measurement of impairment loss under IFRS 9 and IAS 39 in all classes of financial assets requires judgment, in particular estimating the amount and timing of future cash flows and the values of collateral. These estimates are based on several factors where changes can result in different levels of provisions.

The Company's expected credit loss calculations are based on complex model outputs with a number of key assumptions regarding the selection of variable inputs and their interrelationships. Elements of ECL models that are considered accounting judgments and estimates include the following:

- The Company's internal credit rating, which determines the probability of default in repayment in individual degrees.
- The controls used by the Company to assess whether there is a significant increase in credit risk as well as provisions for financial assets that must be measured based on ECL over the life of the asset and a qualitative assessment.
- Development of ECL models including different equations and selection of inputs.
- Determination of the correlation between macroeconomic scenarios and economic inputs and the impact of default probability and loss assuming default such as oil prices, collateral values, impact of default probability, exposures at default and loss assuming default.

Selection of macroeconomic scenarios that have a forward-looking outlook and their likelihood to apply economic input in ECL models.

Going concern

The Company's management has assessed the Company's ability to continue as a going concern and is satisfied that the Company has sufficient resources to continue in the foreseeable future. Management is not aware of any significant uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the financial statements have been prepared on a going concern basis.

Amlak International operates in accordance with the Implementing Regulations of the Law on Supervision of Finance Companies and the Implementing Regulations of the Real Estate Finance Law issued by SAMA. The main regulations are listed below:

- Minimum paid-up capital of SAR 200 million
- The minimum paid-up capital of a financing company is SAR 200 million, according to SAMA
- Liabilities may not exceed assets

If the financing company's liabilities exceed its assets, SAMA shall, by written decision and in proportion to the violation, take one or more cautionary/corrective measures.

- Losses exceeding 15% of the capital

  A financing company must immediately notify SAMA of losses exceeding 15% of the company's paid-up capital

- Financing provided shall not exceed five times the capital and reserves

  The total financing provided by a financing company shall not exceed five times the capital and reserves of the financing company that conducts the real estate finance activity without the written approval of SAMA. The company shall not exceed the limits stipulated in Article 54(ii)

- Management fees may not exceed 1% of the finance amount or SAR 5,000, whichever is lower

  All management fees and expenses to be recovered from a borrower (for individual customers) by a financing company for each transaction may not exceed 1% of the finance amount or SAR 5,000, whichever is lower

- Provisions shall be made in accordance with IFRS

  A financing company must make provisions for potential loss and risk in accordance with IFRS. It must also set criteria for write-offs and loss provisions, including market risk provisions

- Real estate financing may not exceed 90% of the total value of a property

  A real estate finance company may not grant a financing amount exceeding 90% of the total value of the property subject to the mortgage agreement. SAMA may to change this ratio according to prevailing market conditions

  The exposure of a financing company to a single borrower shall be less than 10% of the paid-up capital and reserves. Exposure to a group of borrowers where a member thereof has direct or indirect control over the group shall be less than 25% of the paid-up capital and reserves, unless a no objection letter is obtained from SAMA

- The capital of a real estate refinance company must be less than SAR 5 billion
- A letter of no objection must be obtained from SAMA approving distribution of dividends before any dividends or other distributions are approved, recommended or announced, subject to the following conditions:
  - Distribution shall not lead to a decrease in the level of capital adequacy and liquidity below the prescribed levels
  - The total distributions in the financial year shall not exceed the profits realized during the previous year
  - Any other conditions that may be specified by SAMA

6.1.4 Financial risk management

The Company manages exposure to credit risk, which is the risk that one party will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in lending activities that lead to Murabaha, Ijara, Ijara mawsofa fi athemmah receivables. The Company assesses the probability of default of counterparties using internal rating mechanism for corporate clients (Corporate segment includes corporate and HNWI). The Company's risk management policies are designed to identify, set appropriate risk limits, and monitor the risks and adherence to limits. Actual exposures against limits are monitored on regularly basis.

Amounts resulting from expected credit losses - significant increase in credit risk

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

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

- The 12 month probability of default (PD) as at the reporting date; with
- The 12 month probability of default (PD) at the time of initial recognition of the exposure (Based on the original unmodified contractual terms)

Stage 1: When receivables are first recognized, the Company recognizes an allowance based on 12 months Expected Credit Loss (ECLs). Stage 1 receivables also include loans where the credit risk has improved and the receivables has been reclassified from Stage 2.

Stage 2: When a receivables has shown a significant increase in credit risk since origination, the Company records an allowance for the Lifetime Expected Credit Loss (ECLs). Stage 2 receivables also include loans, where the credit risk has improved and the receivables has been reclassified from Stage 3.Stage 3: Receivables considered credit-impaired. The Company records an allowance for the Lifetime Expected Credit Loss (ECLs).

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

Table (82): Stage 1 - 12 month Expected Credit Loss for the year ended 31 December 2018G

(SAR'000)		Impairment allowance for	
Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables	**Gross exposure**	**credit losses**	**Net exposure**
Investment grades	523,275	2,399	520,876
Non-investment grades	663,596	4,648	658,948
Unrated	784,392	1,631	782,761
Total	**1,971,263**	**8,678**	**1,962,585**

Source: Audited Financial Statements for the financial year ended 31 December 2018G.

Table (83): Stage 2 - Lifetime Expected Credit Loss (not credit impaired) for the year ended 31 December 2018G

(SAR'000)		Impairment allowance for	
Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables	**Gross exposure**	**credit losses**	**Net exposure**
Non-investment grades	615,739	14,588	601,151
Unrated	173,397	1,223	172,174
Total	**789,136**	**15,811**	**773,325**

Source: Audited Financial Statements for the financial year ended 31 December 2018G.

Table (84): Stage 3 - Lifetime Expected Credit Loss (credit impaired) for the year ended 31 December 2018G

(SAR'000)		Impairment allowance for	
Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables	**Gross exposure**	**credit losses**	**Net exposure**
Non-investment grades	106,495	17,280	89,215
Non-performing grades	203,936	42,468	161,469
Unrated	29,148	3,669	25,479
Total	**339,579**	**63,417**	**276,163**

Source: Audited Financial Statements for the financial year ended 31 December 2018G.

The investment grade indicates the credit quality of the customer. The company has the following grades:

Investment Grade: The customer is considered to be in investment grade if the rating is (-4) or better according to the company's risk rating which is roughly equivalent to a rating of "BBB-" or better by S&P Global Ratings. In addition to the internal rating, the company uses the credit report from SIMAH (the Saudi Credit Bureau) when analyzing credit quality.

Non-investment grades: The customer is considered to be in non-investment grade if the rating is is from (+5) to (-7) according to the company's risk rating which is roughly equivalent to a rating of BB + to CCC- by S&P Global Ratings. In addition to the internal rating, the company uses the credit report from SIMAH (the Saudi Credit Bureau) when analyzing credit quality

Non-performing grades: The customer is considered to be in Non-performing grade if the rating is (8) or worse according to the company's risk rating which is roughly equivalent to a rating of BB + to CCC- by S&P Global Ratings. In addition to the internal rating, the company uses the credit report from SIMAH (the Saudi Credit Bureau) when analyzing credit quality

Unrated: The company uses the credit report from SIMAH (the Saudi Credit Bureau) when analyzing credit quality for retail customers.

Credit risk grades

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

Credit risk grades are determined and calculated precisely so that the risk of default may increase when the credit risk increases. Each exposure is placed at an appropriate credit risk rating at the time of initial scoring Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data.

Table (85): Stage 3 - Lifetime Expected Credit Loss (credit impaired) for the year ended 31 December 2018G

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

Generating the term structure probability of default (PD)

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

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

Determining whether credit risk has increased significantly

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

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

The company may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

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

The Company monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default; and
- the criteria do not align with the point in time when an asset becomes 30 days past due

Modified financing contracts

The contractual terms of a financing contract may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing financing contracts whose terms have been modified may be closed and then a new financing contracts will be issued based on the modified terms at fair value in accordance with the accounting policy. When the terms of a financing contracts are modified and the modification does not result in closing the contract and issuing a new contract, the determination of whether the portfolio's credit risk has increased significantly reflects comparison of:

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

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

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

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

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired /in default. A customer needs to demonstrate consistently good payment behavior over a period of time before the exposure is no longer considered to be credit-impaired or credit in default.

Incorporation of forward looking information

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

The Company has identified and documented key drivers of credit risk and credit losses for each portfolio and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used as at the yearend 31 December 2018G included the following ranges of key indicator:

Table (86): The economic scenarios used as for the year end 31 December 2018G

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

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

Default

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

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

In assessing whether a borrower is in default the Company considers indicators that are:

- Qualitative (e.g. breaches of covenant);
- Quantitative (e.g. overdue status and non-payment on another obligation of the same issuer to Company)

Measurement of Expected Credit Loss (ECL)

The key inputs into the measurement of Expected Credit Loss (ECL) are the following risk estimates:

1. probability of default (PD);
2. loss given default (LGD); and
3. exposure at default (EAD).

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

Loss given default (LGD) is the magnitude of the likely loss if there is a default. Company estimates loss given default (LGD) based on the history of recovery rates of claims against defaulted counterparties. Loss given default (LGD) estimation considers the structure, any sale of collateral, and recovery costs of any collateral that is integral to the financial asset.

The company records the exposure at default (EAD) by calculating the total book value of the financing (the outstanding balance in addition to the unearned income) which includes the current and potential exposure on the current value of the financing under contractual obligations, if any. Using a maximum of a 12-month probability of default (PD) for financial assets for which credit risk has not significantly increased, Company measures expected credit loss (ECL) considering the risk of default over the maximum contractual period over which it is exposed to credit risk.

For portfolios in respect of which Company has limited historical data or depending on the materiality of portfolio, qualitative adjustment is used to supplement any internally available data. The company performs a qualitative analysis based on the available information, which includes the expected future variables that could be changed of the customer and the expected outcome of the pending court claim in the event that there is a case brought to the client.

Loss allowance

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

Table (87): Reconciliations from the opening to the closing balance of the loss allowance based on customer categories

(SAR'000)	12 Month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Corporate				
Balance at 1 January, 2018G	7,303	5,733	67,164	80,200
Transfer from 12 Month ECL	(1,962)	1,765	197	-
Transfer from Lifetime ECL (not credit impaired)	1,139	(1,716)	577	-
Transfer from Lifetime ECL (credit impaired)	-	12,371	(12,371)	-
Net re-measurement of loss allowance	(1,961)	(9,183)	5,249	(5,895)
Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables that have been derecognized during the year	(923)	(262)	(3,665)	(4,850)
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the period	3,139	4,295	-	7,434
Balance at 31 December, 2018G	**6,735**	**13,003**	**57,151**	**76,889**
High net worth individuals				
Balance at 1 January, 2018G	451	405	3,510	4,366
Transfer from 12 Month ECL	(87)	87	-	-
Transfer from Lifetime ECL (not credit impaired)	10	(68)	58	-
Transfer from Lifetime ECL (credit impaired)	-	2,603	(2,603)	-
Net re-measurement of loss allowance	(94)	(1,603)	1,632	(65)
Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables that have been derecognized during the period	(105)	(19)	-	(124)
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the period	137	180	-	317
Balance at 31 December, 2018G	312	1,585	2,597	4,494
Retail				
Balance at 1 January, 2018G	**1,667**	**1,419**	**352**	**3,438**
Transfer from 12 Month ECL	(162)	157	5	-
Transfer from Lifetime ECL (not credit impaired)	406	(571)	165	-
Transfer from Lifetime ECL (credit impaired)	-	89	(89)	-
Net re-measurement of loss allowance	(478)	37	3,271	2,830
Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables that have been derecognized during the period	(274)	(129)	(50)	(453)
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the period	472	221	15	708
Balance at 31 December, 2018G	**1,631**	**1,223**	**3,669**	**6,523**

Source: Audited Financial Statements for the financial year ended 31 December 2018G.

Collateral

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

Possible decrease in the value of funded assets

The Company requires from retail customers a maximum amount of loan-to-value ("LTV") of 90%. Whereas the collateral coverage ratio for its corporate client loans (Corporate segment includes corporate and HNWI clients) is 120%, which is equivalent to the loan-to-value ("LTV") ratio of 83%, it should be noted that the collateral coverage ratio is equal to the guarantee divided by the remaining financing amount.

For corporate clients (Corporate segment includes corporate and HNWI clients), the value of the financed real estate assets is valued by independent valuators and the company uses the lowest valuation from independent valuators to calculate the loan to value ("LTV") ratio and the loan coverage ratio. The financed real estate assets are revalued once a year and if the value of the financed real estate assets declines, the company may request additional collateral from the clients to cover this decrease. As for individual customers, the value of the financed real estate asset is the purchase value of the asset.

Due to the recent economic conditions in the real estate market in the Kingdom that witnessed a decrease in the value of the real estate assets (mainly lands), the company may request additional guarantees from specific clients whose loan-to-value ("LTV") ratio is relatively high (less than 100% loan coverage ratio).

Change in Profit rate

Profit rate risk is the uncertainty of future earnings resulting from fluctuations in profit rates. The risk arises when there is a mismatch in the assets and liabilities which are subject to profit rate adjustment within a specified period. The most important source of such rate risk is the Company's borrowings and financing activities, where fluctuations in profit rates, if any, are reflected in the results of operations. The 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. For further information, please refer to section (**(2-1-2) Risk Related to Financing Agreements**)).

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 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 Company manages this risk through diversification of funding resources and use of derivative financial instruments.

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 all financial assets and liabilities held as at the end of year. All exposures are measured, monitored, analyzed and discussed by the management on a monthly basis and indicated in the audited annual financial statements.

The following table illustrate the sensitivity to a possible change in profit rates Assuming an increase and decrease of 1.0% on all financial assets and liabilities not held for trading.

Table (88): Sensitivity to a possible change in profit rates for the year end 31 December 2018G

2017G		2018G	
Change in basis points	**Impact on net profit (SAR'000)**	**Change in basis points**	**Impact on net profit (SAR'000)**
+100	8,415	+100	7,670
-100	(8,415)	-100	(7,670)

Table ((88) **Sensitivity to a possible change in profit rates for the year end 31 December 2018G**) has been prepared according to International Accounting Standards No. 7 Appendix 22 (IFR7 Appendix B22).

The table below summarizes the Company's exposure to profit rate risk, the carrying amounts of the Company's assets and liabilities categorized by contractual re-pricing dates or maturity dates, whichever occurs first. It should be noted that the contractual re-pricing process is the re-pricing of profit rates based on the price of the SIBOR during the period agreed in the financing contract.

Table (89): Company's exposure to profit rate risks for the year end 31 December 2018G

31 December 2018G (SAR'000)	Profit bearing				Non-profit bearing	Total
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years		
Assets						
Cash and cash equivalents	-	-	-	-	15,965	15,965
Investments at FVOCI	-	-	-	-	12,484	12,484
Murabaha receivables, net	10,784	33,581	60,467	3,424	-	108,256
Ijara receivables, net	463,296	1,099,035	1,217,080	123,411	-	2,902,822
Ijara Mawsofa Fi Athemmah receivables, net	24,730	54,932	-	-	-	79,662
Positive fair value of derivatives	-	-	-	-	1,087	1,087
Total Assets	**498,810**	**1,187,548**	**1,277,547**	**126,835**	**29,536**	**3,120,276**
Liabilities						
Bank borrowings	1,530,360	372,814	90,958	-	-	1,994,132
Total liabilities	1,530,360	372,814	90,958	-	-	1,994,132
Gap	**(1,031,550)**	**814,734**	**1,186,589**	**126,835**	**29,536**	**1,126,144**
Cumulative Gap	**(1,031,550)**	**(216,816)**	**969,773**	**1,096,608**	**1,126,144**	

Source: Audited Financial Statements for the financial year ended 31 December 2018G.

- **Gap**: It is a financial and accounting term measuring the risks of the future change in interest rate. It measures the inconsistency in pricing the company's asset with its obligations or liabilities which are sensitive to the change in the interest rate during a specific future period of time.
- **Cumulative Gap**: It is a financial and accounting term measuring the risks of the future change in interest rate. It measures the inconsistency in pricing the company's asset with its obligations or liabilities which are sensitive to the change in the interest rate during a multiple future periods of time.

The value of the gap is negative when the value of the liabilities (Bank borrowings) that will be re-priced during the period is higher than the value of the assets (loans to the company's customers), which will be priced during the same period. It should be noted that in the event of a negative gap, the rise in the price of SIBOR leads to a decrease in profits. The gap value is positive when the value of the assets (loans to the company's clients) that will be re-priced during the period are higher than the value of the liabilities (Bank borrowings), which will be priced during the same period. It should be noted that in the event of a positive gap, the decrease in the price of SIBOR leads to higher profits. The management may hedge the gaps, which are more than one year, from time to time as it deems appropriate.

Hedging the fluctuations of the profit rate

The company mainly borrows on a medium term basis (loans from 3 years to 5 years) and at a floating rate (SIBOR +) from local banks. Due to the nature of the structuring of these loans, the company relies on hedging instruments such as Profit Rate Swaps to hedge the change in the SIBOR+ for gaps that exceed one year.

The company provides long-term financing for companies (including corporate clients and individuals with financial solvency) in addition to Murabaha contracts which are at a fixed profit rate, which exposes the company to profit rate risk. The company hedges this risk through Profit Rate Swaps because borrowing costs are based on a floating profit rate (SIBOR +) while the company lends through murabaha and leasing contracts to its corporate clients (including corporate clients and individuals with financial solvency) at a rate Fixed profit.

The positive / negative fair value of derivatives mainly includes Profit Rate Swaps for the purpose of hedging against commission income related to long-term financing. The company provides the fixed interest rate to some clients, based on agreements with some clients, and pays floating rate of return (SIBOR) to the borrowing banks.

Any gains or losses arising from changes in the fair value of derivatives are reported directly to shareholders' equity through other comprehensive income and recognized as a cash flow hedge.

Liquidity

Management monitors the maturity profile to ensure that adequate liquidity is maintained.

Analysis of financial liabilities by remaining contractual maturities

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

Table (90): Company's financial liabilities for the year end 31 December 2018G

31 December 2018G (SAR'000)	Fixed maturity				No fixed maturity	Total
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years		
Assets						
Cash and cash equivalents	-	-	-	-	15,965	15,965
Investments at FVOCI	-	-	11,591	-	893	12,484
Murabaha receivables, net	10,784	33,581	60,467	3,424	-	108,256
Ijara receivables, net	209,087	548,136	1,523,132	622,466	-	2,902,822
Ijara Mawsofa Fi Athemmah receivables, net	1,742	5,172	24,195	48,553	-	79,662
Positive fair value of derivatives	-	-	1,087	-	-	1,087
Prepayments and other assets	29,664	75,968	1,048	305	-	106,985
Investment in joint ventures	3,961	3,961	-	-	-	7,922
Property and equipment	480	1,440	9,534	2,734	13,650	27,838
Total assets	**255,718**	**668,258**	**1,631,054**	**677,482**	**30,508**	**3,263,020**
Liabilities						
Accrued expenses and other liabilities	45,243	43,049	3,794	-	-	92,086
Zakat and income tax payable	-	3,249	-	-	33,541	36,790
Bank borrowings	231,004	578,732	1,184,396	-	-	1,994,132
Employees benefits	-	-	-	-	13,618	13,618
Total liabilities	**276,247**	**625,030**	**1,188,190**	**-**	**47,159**	**2,136,626**

Source: Audited Financial Statements for the financial year ended 31 December 2018G.

6.2 Principal Factors Affecting the Company's Operations

Following is a discussion of the main factors that have affected or are expected to affect the Company's business, financial position and results of operations. These factors are based on information currently available to the Company and may not represent all factors that may have an impact on the Company's business. Accordingly, see the "**Risk Factors**" Section and "**Important Notice**" Section of this Prospectus.

6.2.1 Economic Growth Sector

The real estate sector in general is affected by economic factors, which in turn are reflected in real estate finance activity. The Kingdom has made remarkable progress in implementing reform programs as part of the Kingdom's Vision 2030 which will positively impact the real estate sector and support the growth of the Company's business. However, low economic growth will negatively impact the Company's business. Increased per capita income is also a driver of demand, which is directly associated with improved economic conditions. While the Kingdom's economy faces many challenges, the improvement of economic conditions due to the economic reforms currently being undertaken by the Government to diversify the economy and create new sources of income will contribute to enhancing the Company's ability to increase the volume of business. In addition, the commercial sector will grow and thus affect the Company's business volume by increasing its market share.

6.2.2 Government Subsidy

Through the initiatives of the Government and the Ministry of Housing, which contribute effectively to developing the real estate market, and while housing is considered a basic need of individuals, the economic challenges and the high cost of living will affect the priorities and rate of per capita expenditure in the Kingdom. This includes individuals' credit ability to obtain real estate financing to buy a house. It should be noted that the Government of Saudi Arabia has launched several initiatives, such as the State incurring VAT for the purchase price of the first home of no more than SAR 850,000 under Royal Order No. A/86 dated 18/4/1439H. In addition, the Ministry of Housing launched initiatives, which played an active and clear role in facilitating citizens' ownership of housing, through the provision of soft financing products. It also supports the real estate finance sector by granting credit facilities at low cost through Saudi Real Estate Refinancing Company. If government support continues at the current pace, it will increase real estate finance and thus positively impact the Company's financing activities.

6.2.3 Change in interbank borrowing rate

A high lending rate (SIBOR) directly affects the Company's cost of financing and thus leads to a higher margin required by customers. This reduces the demand for real estate financing and thus may negatively affect the Company. A decrease in the lending rate leads to higher demand for real estate finance, which will positively affect the Company.

6.2.4 Population growth

The population of the Kingdom in 2017G reached 32.55 million persons, the majority of whom are young and distributed throughout all regions of the Kingdom. They need to provide housing for themselves and their families. Such need triggers growth in the real estate sector and encourages real estate developers to establish new housing units of various types. In addition, companies and businessmen need to expand their business activities in the Kingdom, which requires the purchase and development of real estate and land. As a result, this enhances the Company's position to expand its business.

6.2.5 Change in regulations

Government policies contribute to increased demand for real estate finance through direct and indirect support to the beneficiary. Application of certain policies regarding the amount of the advance payment and the rate of financing for the guarantee, and provision of guarantees to real estate financiers may contribute to an increased or decreased demand for real estate products, which affects the Company's activities adversely or positively.

6.2.6 Seasonal factors

The Company finances companies and individuals working in different sectors. The sector in which a customer operates may be affected by the general economic condition and technical and scientific developments. The Company reviews the business sectors on an annual basis to ensure the customer's ability to meet its obligations.

Like other commercial sectors, the real estate sector is affected by factors of supply and demand, which vary according to seasonal cycles. The demand for financing for the purchase of property usually decreases during the summer vacation season as well as during Ramadan. Consequently, requests for real estate finance from the Company decrease. Demand recovers and increases during the first, second and fourth quarter. The Company's profits are affected by finance balances and not by seasonal factors.

6.2.7 Competitive factors

As at the end of 2018G, there were six (6) real estate financing companies. Amlak accounted for 34% of the market share in net income as at the end of 2018G. The sector may admit new competitors in the coming years, which may acquire a share of the real estate finance sector. However, if any of these companies exit the sector, the Company's available share of the market may increase.

6.3 Results of operations

6.3.1 Income statement

Table (91): Audited income statements for the years ended 31 December 2016G, 2017G and 2018G

(SAR'000)	2016G Amended	2017G Audited	2018G Audited	CAGR 2016G-2018G
Income from Murabaha contracts	39,085	29,759	16,370	(35.3%)
Income from Ijara contracts	210,994	224,139	236,590	5.9%
Income from Ijara mawsofa fi athemmah contracts	7,262	7,646	6,398	(6.1%)
Fee and commission income	3,046	5,870	7,725	59.3%
Income from Murabaha, Ijara, and Ijara mawsofa fi athemmah	**260,387**	**267,414**	**267,083**	**1.3%**
Charge expenses	-	(1,422)	(1,581)	N/A
Borrowing facility fees and charges	(81,809)	(91,755)	(88,087)	3.8%
Income from Murabaha, Ijara, and Ijara mawsofa fi athemmah, net	**178,578**	**174,237**	**177,415**	**(0.3%)**
Other revenues	-	-	226	N/A
Share in (loss)/income from JVs, net	12,797	-	-	N/A
Arrangement fees	530	-	-	N/A
Gain on sale of portfolio	133	-	-	N/A
Net operating revenue	**192,038**	**174,237**	**177,641**	**(3.8%)**
Depreciation and write-off	-	(2,054)	(3,044)	N/A
General and administrative expenses	(64,627)	(65,046)	(66,802)	1.7%
Selling and marketing expenses	(8,920)	(8,955)	(8,208)	(4.1%)
Impairment in properties and equipment	-	(2,905)	(2,100)	N/A
Impairment allowance for credit losses, net	(9,451)	(1,434)	98	N/A
Net operating expenses	**(82,998)**	**(80,394)**	**(80,056)**	**(1.8%)**
Net operating income	**109,040**	**93,843**	**97,585**	**(5.4%)**
Share in (loss)/income from JVs, net		8,911	(240)	N/A
Arrangement fees	-	500	268	N/A
Profit before zakat and income tax	**109,040**	**103,254**	**97,613**	**(5.4%)**
Zakat and income tax*	-	-	-	N/A
Net profit for the year	**109,040**	**103,254**	**97,613**	**(5.4%)**
Other comprehensive income				
Items to be reclassified to profit or loss in subsequent years:				
Net movement in cash flow hedges	(614)	(1,456)	707	N/A
Change in fair value of available for sale investments	(324)	1,899	-	N/A
Items that will not be reclassified to profit or loss in subsequent years:				
Net change in fair value of investments at FVOCI	-	-	(1,296)	N/A
Actuarial profit from defined benefit programs	-	268	(929)	N/A
Other comprehensive (loss) income, net	**(938)**	**711**	**(1,518)**	**(27.2%)**
Other comprehensive income, net	**108,102**	**103,965**	**96,095**	**(5.7%)**
As % of revenue				Percentage point 2016G-2018G
Gross profit	68.6%	65.2%	66.4%	(2.2)
Other operating income, net	5.2%	0.0%	0.1%	(5.1)
General and administrative expenses	24.8%	24.3%	25.0%	0.2

(SAR'000)	2016G Amended	2017G Audited	2018G Audited	CAGR 2016G-2018G
Net operating expenses	31.9%	30.1%	30.0%	(1.9)
Profit before zakat and income tax	41.9%	38.6%	36.6%	(5.3)
Net profit for the year	41.9%	38.8%	36.8%	(5.1)
Other comprehensive (loss) income, net	(0.4%)	0.3%	(0.6%)	(0.2)
KPIs				
Average return on financing contracts	8.8%	8.4%	8.3%	0.5
Average cost of financing	4.1%	4.4%	4.3%	0.2
Average financing margin	4.6%	4.0%	4.0%	(0.6)

Source: Audited Financial Statements for the financial years ended 31 December 2016G, 2017G and 2018G and the Company.

* As of 1 January 2017G, in line with a SAMA circular, the Company amended its accounting policy relating to zakat and income tax and began to record zakat and tax within shareholders' equity and charge the same to retained earnings, Zakat and income tax were previously charged to the income statement. Starting from the second quarter of 2019G, and in line with the latest instructions issued by SAMA on 17/07/2019G, the Company has amended the recognition of Zakat and tax to the income statement.

Amlak International Real Estate Financing Company was incorporated and started its activity as a Saudi closed joint stock company in 2007G; it was headquartered in Riyadh with a paid-up capital of SAR 1 billion. The Company continued to operate with a paid-up capital of SAR 900 million from 2012G to 2016G. Its capital was increased due to the implementation of a share grant program for some employees. In 2017G, the capital was increased by SAR 3 million to SAR 903 million. The capital was also increased in 2018G by SAR 3 million to SAR 906 million, divided into 90.6 million shares with a nominal value of SAR 10 per share.

In accordance with Sharia standards and principles through review and approval by the Company's Sharia Committee, the Company's main objectives are to provide and extend innovative real estate financing solutions to individuals and companies through its departments, business segments and branches in the Kingdom of Saudi Arabia.

Revenues of Amlak International Real Estate Financing Company consist of four main sources: Murabaha contracts (6.1% of total revenue in 2018G, 11.1% in 2017G, 15.0% in 2016G), Ijara contracts (88.6% of total revenue in 2018G, 83.8% in 2017G, 81.0% in 2016G), Ijara mawsofa fi athemmah contracts (2.4% of total revenue in 2018G, 2.9% in 2017G, 2.8% in 2016G), and fees and commissions (2.9% of total revenue in 2018G, 2.2% in 2017G, and 1.2% in 2016G). Income from Murabaha, Ijara and Ijara mawsofa fi athemmah contracts is recognized on the basis of the effective profit rate. Income from Ijara mawsofa fi athemmah receivables is recognized on the EPR basis after delivery of the property that was financed. Other contract receivables are recognized as of the date of the financing contract. The Company generates operating income from investments, JVs, arrangement fees and portfolio selling gains. All of above will be described in Section "Other Operating Income".

Income from Murabaha contracts, Ijara contracts and Ijara mawsofa fi athemmah contracts, and fees and commissions

Total income from Murabaha, Ijara and Ijara contracts mawsofa fi athemmah, fees and commissions increased slightly by 2.7% from SAR 260.4 million in 2016G to SAR 267.4 million in 2017G due to an increase in Ijara income from SAR 211.0 million in 2016G to SAR 224.1 million in 2017G. This increase is due to the change of the Company's strategy to shift the focus from Murabaha to Ijara contracts. Under this change, the Company may be exempted from zakat due to the nature of these contracts. Accordingly, unearned profits (profits recorded in the income statement for customers defaulting for a period exceeding 90 days) increased during the period. Income from Murabaha contracts declined from SAR 39.1 million to SAR 29.8 million during the same period.

Income remained relatively stable at SAR 267.1 million in 2018G (with a decrease by 0.1% from SAR 267.4 million in 2017G to SAR 267.1 million in 2018G) mainly due to a decline in Murabaha income by 45.0% from SAR 29.8 million in 2017G to SAR 16.4 million in 2018G, in line with a decrease in the volume of the Murabaha contract portfolio by 10 contracts during the same period. This decrease was due to a change in the Company's strategy to shift the focus from Murabaha contracts to Ijara contracts due to its reliance on the variable profit rate related to SIBOR (see 4.3.1 for more details on the nature of Ijara contracts), as well as the possibility of deducting Ijara contracts from the zakat base due to the nature of these contracts. This assumption is based on the following:

- When calculating zakat, the Company deducts the assets from the zakat base, resulting in a decrease in zakat expenses. As Ijara contracts require that the assets be owned by the Company until the end of the contract (see 4.3.1 for details on the nature of Ijara contracts), these assets may be deducted from the Company's zakat base.

- Similarly, this resulted in an increase in Ijara income from SAR 224.1 million in 2017G to SAR 236.6 million in 2018G due to improved returns from customer financing contracts with an increase of 29 loans during the same period.

Borrowing facility cost and charges

Borrowing facility cost and charges relate to costs directly attributable to the day-to-day operations of the Company. Financing from banks is based on medium term financing over a period of 3 to 5 years at the cost of variable or fixed SIBOR plus an interest rate. This depends on the use of facilities granted by 9 local banks (as at 31 March 2019G) as per the rates provided by each bank. The Company has entered into hedging instrument agreements, namely profit rate swaps for part of the exposure, with banks.

The cost of bank facilities and borrowing charges increased by 12.2% from SAR 81.8 million in 2016G to SAR 91.8 million in 2017G due to the higher interest rates charged to Amlak by banks as a cost on bank facilities and bank borrowing charges in 2016G. These rates were stable in 2017G. In addition, the Company's borrowing volume increased in 2017G in line with an increase in the financing portfolio during the period.

The cost of bank facilities and borrowing charges decreased by 4.0% from SAR 91.8 million in 2017G to SAR 88.1 million in 2018G as a result of selling a financing portfolio for SAR 104.7 million to Saudi Real Estate Refinancing Company during the year. This led to a decrease in bank facilities by 3.8%, from SAR 2.1 billion to SAR 2.0 billion respectively.

Key Performance Indicators

- **Average return on financing contracts**: The average return on the financing contracts decreased from 8.80% in 2016G to 8.30% in 2018G. This indicator is affected by several factors, including the change in the SIBOR, change in the number of new financing contracts during the period, the nature of contracts during the period, changes in the portfolio as a result of the sale of contracts to other companies and the average loan amounts during the year.
- **Average financing cost**: The average financing cost increased from 4.10% in 2016G to 4.30% in 2018G. This indicator is affected by several factors including the change in the SIBOR ratio which is the most important factor, the change in the profit margin of the lending banks and the average borrowing amounts during the year.
- **Average financing margin**: The average financing margin decreased from 4.6% in 2016G to 4.0% in 2018G. The indicator is calculated by subtracting the average financing cost for the period from the average return on financing contracts for the same period.

For more information on how to calculate financial indicators, please see section ((6-14) "**calculating financial indicators**").

Other operating income

Other income

Income from other sources amounted to SAR 226,000 in 2018G. This relates to the Company's share of revenue from joint ventures related to sales of certain assets (carried in prepayments and other assets).

Gain on sale of portfolio

Gains on sale of portfolio consist of a single transaction with the Saudi Investment Bank in relation to the sale of a financing portfolio of SAR 10.6 million. Such portfolio includes 14 individual financing contracts as at 28 June 2016G. In return, the Company received a portfolio sale fee of SAR 133,000 in 2016G, which was collected as a lump sum by the Company.

In 2017G, the Company did not sell any portfolios, nor did it receive any portfolio sale gains. However, the Company received other fees related to the portfolios sold.

The Company sold a portfolio to the Saudi Real Estate Refinancing Company for SAR 104.7 million which included 168 individual finance contracts as of 11 May 2018G. The Company did not receive portfolio sale fees from the sale of the portfolio to the Saudi Real Estate Refinance Company. The Company received other fees related to the portfolios sold.

Table (92): Portfolio sold to the Saudi Investment Bank on 28 June 2016G

(SAR'000)	Total portfolio	Net portfolio
Ijara	10,768	7,399
Ijara mawsofa fi athemmah	4,880	3,227
Total	**15,648**	**10,626**

Source: Management information.

Table (93): Portfolio sold to Saudi Real Estate Refinance Company on 11 May 2018G

(SAR'000)	Total portfolio	Net portfolio
Ijara	110,366	77,659
Ijara mawsofa fi athemmah	39,246	27,021
Total	**149,612**	**104,680**

Source: Management information.

Table (94): Value of the portfolio sold as of 31 December 2018G

	31 December 2018G (SAR'000)
The Saudi Investment Bank	8,106
Saudi Real Estate Refinance Company	96,257
Total	**104,363**

Source: Management information.

Depreciation and write-off

Depreciation and write-off costs increased by 5.0% from SAR 2.0 million in 2016G (included in general and administrative expenses in the financial statements for the year ended 31/12/2016G) to SAR 2.1 million in 2017G as a result of additions to information systems equipment by SAR 1.4 million. Depreciation and write-off costs increased by 48.2% from SAR 2.1 million in 2017G to SAR 3.0 million in 2018G due to write-off of net assets estimated at SAR 788,000 during the same period.

Operating expenses

General and administrative expenses

General and administrative expenses amounted to SAR 66.8 million in 2018G, consisting mainly of salaries and employee related expenses (SAR 49.2 million) and rental costs (SAR 3.2 million). General and administrative expenses increased by 0.6% from SAR 64.6 million in 2016G to SAR 65.0 million in 2017G as a result of the increase in salaries and employee related expenses from SAR 46.6 million to SAR 49.9 million on account of the increased number of employees, in addition to the rise in Directors' fees from SAR 2.9 million in 2016G to SAR 3.4 million in 2017G. Furthermore, general and administrative expenses increased by 2.7% from SAR 65.0 million in 2017G to SAR 66.8 million in 2018G as a result of increased consultancy fees (SAR +1.1 million).

Selling and marketing expenses

Selling and marketing expenses amounted to SAR 8.2 million in 2018G, comprising marketing expenses (SAR 3.2 million), outsourcing (recruitment) costs (SAR 2.5 million) and insurance expenses (SAR 2.5 million).

Selling and marketing expenses increased slightly by 0.4% from SAR 8.9 million in 2016G to SAR 9.0 million in 2017G as a result of an increase in insurance expenses from SAR 2.3 million in 2016G to SAR 3.1 million in 2017G due to growth in the financing portfolio, which led to an increase in insurance expenses during 2017G, offset by a decrease in other marketing expenses.

Selling and marketing expenses decreased by 8.3% from SAR 9.0 million in 2017G to SAR 8.2 million in 2018G as a result of the decline in insurance expenses from SAR 3.0 million to SAR 2.5 million during the same period, attributed to customer insurance due to lower insurance requirements during the same period.

Allowance for impairment loss on property and equipment

During 2018G, the Company recognized impairment loss on lands of SAR 2.1 million (year ended 31 December 2017G: SAR 2.9) by the difference between the recoverable amount and the book value as result of appraisal, in both 2017G and 2018G, of the land owned by the Company in the north of Riyadh, Sahafa Neighborhood, King Fahd Road, for the purpose of building the Company's head office at a total cost of SAR 18.7 million. Thus, the book value (after the appraisal of 2017G) reached SAR 15.8 million at the end of 2017G and SAR 13.7 million at the end of 2018G, which resulted in additional allowances, as the Company postponed the plan to build the head office and rented a building for the head office during 2018G. The appraisal was conducted in both 2017G and 2018G and 2018G. The appraisal report showed a decrease in the value of land due to the decline in real estate prices in the area where the land is located. For further information, please refer to Section (6.4.8) "**Property and Equipment**".

Impairment allowance for credit losses

Impairment allowance for credit losses includes an allowance for Murabaha, Ijara and Ijara mawsofa fi athemmah. Prior to 2017G, the Company adopted international standards in compliance with SAMA regulations requiring a minimum of 1% of the contract value be set aside as a general provision. The Company has also adopted the "incurred losses" model, which requires the Management to examine receivables at the end of the period and study any historical events that may affect future collection. As of 2018G, the Company adopted IFRS 9, under which the Company is required to make provision for expected credit losses for all receivables (financial assets). This provision is based on the expected credit losses related to any potential default in the next 12 months unless there is a significant increase in credit risk since its inception. ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- **Financial assets that are not credit-impaired at the reporting date**: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive), and
- **Financial assets that are credit-impaired at the reporting date**: as the difference between the gross carrying amount and the present value of estimated future cash flows.

Allowance for credit losses decreased by 84.8% from SAR 9.5 million in 2016G to SAR 1.4 million in 2017G, given that there was no significant increase in the financing portfolio between 2016G and 2017G.

In 2018G, an allowance for credit losses amounting to SAR 98,000 was reversed, as the Company has set aside an adequate provision in line with the application of IFRS 9 adopted by the Company on 1 January 2018G, which requires the Company to calculate the allowance for credit losses on all receivables (financial assets) on a 12-month or lifetime basis. In accordance with the transitional provisions for the initial application of IFRS 9, the Company may recognize any difference between the amounts previously reported under IAS 39 and the value calculated as per IFRS 9 at the beginning of application in the retained earnings. Accordingly, the balance of retained earnings decreased by SAR 37.8 million as of 1 January 2018G, and the allowance for credit losses increased to SAR 88 million.

Table (95): Table of aged receivables after deducting the unearned return as of 31 December 2018G

(SAR'000)	90 days - 120 days	120 days - 180 days	180 days - 220 days	More than 220 days	Total
Corporate segment	-	3,238	-	144,685	147,923
Retail segment	1,748	760	2,728	14,284	19,520
High-net-worth individuals	-	-	-	8,165	8,165
Total	**1,748**	**3,998**	**2,728**	**167,134**	**175,608**

Source: Management information.

Aged receivables include Murabaha and Ijara contracts that are more than 90 days past due. The Company applies the customer collection policy by:

1. Reminding the customer 10 days before the maturity date;
2. Reminding the customer on the maturity date; and
3. Reminding the customer 15 days after the maturity date.

The Company will also transfer the request to the Company's Legal Department in case of further delay. In addition, the Company downgrades the credit rating of a customer who fails to pay on time more than once. However, it does not downgrade the credit rating of a customer who fails to pay on time only one time, and just issues a notice of maturity to the customer. The Company offers the option of restructuring the loan to customers facing financial constraints.

Share in (loss)/income from JVs, net

The share of net loss/income from joint ventures decreased during 2016G to 2018G as a result of the Company's move to exit from joint investments in accordance with the Real Estate Finance Law and its Implementing Regulations (Article 3), which prevents real estate companies from entering into real estate investments as of 2014G. SAMA has given Amlak a letter of no objection to continue the previously signed contracts until these projects are completed. The amount and number of the Company's investments decreased from ten investments in 2016G to two investments in 2018G, which resulted in a decline in revenues from the Company's share in income from joint ventures during this period.

The share of net income from joint ventures decreased by 30.4% from SAR 12.8 million in 2016G to SAR 8.9 million in 2017G due to further decrease in the number of investments (-3 investments) during the year in addition to the Company's decision in 2017G to liquidate three joint ventures, resulting in lower total revenue from the Company's share in income from joint venture income.

The share of net loss/income from joint ventures decreased from SAR 8.9 million in 2017G to SAR 240,000 in 2018G as a result of exit from four joint ventures during the period.

Arrangement fees

Arrangement fees relate to a fee of SAR 250,000 paid every six months (a fixed fee) by the Financial Securities and Brokerage Company for administrative services pertaining to an investment fund for Saraya Tower Real Estate Development Fund, in addition to the monthly portfolio management fees (variable fees).

Zakat and income tax

Effective from 1 January 2017G, in line with SAMA's circular, the Company has adjusted its accounting policy on Zakat and income tax, and has started to record Zakat and income tax as a deduction from retained earnings. Historically, Zakat and income tax was charged to the income statement. As a result, the Zakat and income tax expense has been recognized in the statement of shareholders' equity at 31 December 2016G, 2017G and 2018G. Starting from the second quarter of 2019G, and in line with the latest instructions issued by SAMA on 17/07/2019G, the Company has amended the recognition of Zakat and tax to the income statement.

Other comprehensive income

Net movement in cash flow hedges

The net movement in cash flow hedges was SAR -1.5 million in 2017G and SAR 707,000 in 2018G, comprising financial instruments to reduce the Company's exposure to commission rate risk related to long-term financing. Under the Company's agreement with the customer, the Company bears the profit margin, and the Bank collects the profit margin associated with the Saudi Arabian Interbank Offered Rate (SIBOR). Any gains or losses arising from the changes in the fair value of derivatives are directly recognized in the statement of profit or loss, except for the effective portion of cash flow hedges, which is stated in shareholders' equity.

Net movement in cash flow hedges decreased from SAR -614,000 in 2016G to SAR -1.5 million in 2017G due to the higher interbank interest rate during the same period.

Net movement in cash flow hedges increased from SAR -1.5 million in 2017G to SAR 707,000 in 2018G as a result of the expiry of negative derivative contracts, with positive derivative contracts and profit rates for the Company still effective during the same period.

Change in fair value of available for sale investments

The change in fair value of available for sale investments consists mainly of investments with The Saudi Investment Bank related to Saraya Tower Real Estate Development Fund, which is a closed real estate development fund managed by Alistithmar Capital with no maturity, and evaluated every six months. The change in fair value of available for sale investments increased from SAR -324,000 in 2016G to SAR 1.9 million in 2017G as a result of the revaluation of the Fund during the year. The change in fair value of available for sale investments decreased from SAR 1.9 million in 2017G to SAR -1.3 million in 2018G as a result of lower profits realized during the same period.

It should be noted that the Company has recognized the gains/losses from change in fair value of investments through other comprehensive income in 2018G under items that will not be reclassified later to profit or loss, given that the Company will exit these investments by the end of 2020G in accordance with SAMA's laws. Therefore, they are separated from available-for-sale investments and recognized as investments at fair value through other comprehensive income in the statement of financial position as of 2018G (see statement of comprehensive income and statement of financial position).

Loss/profit from defined benefit plans

Loss/profit from defined benefit plans consists of actuarial profits resulting from the defined benefit plans recognized in other comprehensive income, amounting to SAR -929,000 in 2018G.

6.3.2 Revenue by contract

Table (96): Revenue by contract for the years ended 31 Dec 2016G, 2017G and 2018G

(SAR'000)	2016G Management information	2017G Management information	2018G Management information	CAGR 2016G-2018G
Income from Murabaha contracts				
Corporate segment	37,558	28,754	15,865	(35.0%)
Retail segment	308	239	157	(28.6%)
Income fees	1,219	766	349	(46.5%)
Total income from Murabaha contracts	39,085	29,759	16,370	(35.3%)
Income from Ijara contracts				
Corporate segment	134,810	133,559	150,199	5.6%
Retail segment	66,150	76,044	72,156	4.4%
Corporate segment Istisna contracts	5,843	9,955	9,956	30.5%
Income fees	4,191	4,582	4,279	1.0%
Total income from Ijara contracts	210,994	224,139	236,590	5.9%
Income from Ijara mawsofa fi athemmah contracts				
Retail segment	7,263	7,646	6,398	(6.1%)
Gross Ijara mawsofa fi athemmah contract receivables	7,263	7,646	6,398	(6.1%)
Fees and commissions, net*	3,046	4,448	6,144	42.0%
Income from Murabaha, Ijara and Ijara mawsofa fi athemmah contracts	260,387	265,992	265,502	1.0%
As % of revenues				Percentage point 2016G-2018G
Income from Murabaha contracts	15.0%	11.1%	6.1%	(8.9)
Income from Ijara contracts	81.0%	84.3%	89.1%	8.1
Income from Ijara mawsofa fi athemmah contracts	2.8%	2.9%	2.4%	(0.4)
Net fees and commissions	1.2%	1.7%	2.3%	1.1

Source: Management information.

* This item includes net fee and commission income and differs from the total fee and commission income in the financial statements.

Income from Murabaha contracts

A Murabaha contract is a contract pursuant to which the company sells an asset to a customer. The sale price comprises the cost plus an agreed profit margin, and the total amount due under the Murabaha contract includes the total future sale payments related to the Murabaha contract.

Income from Murabaha consists of: the corporate segment (96.9% of total Murabaha contract revenue in 2018G) and the retail segment (1.0% of total Murabaha contract revenue in 2018G).

Income from Murabaha contracts decreased by 23.9% from SAR 39.1 million in 2016G to SAR 29.8 million in 2017G in line with the decline in corporate segment income from SAR 37.6 million to SAR 28.8 million during the same period due to the general economic slowdown and regulation of government spending during the period.

Income from Murabaha contracts decreased by 45.0% from SAR 29.8 million in 2017G to SAR 16.4 million in 2018G as a result of the decline in corporate segment income from SAR 28.8 million to SAR 15.9 million during the same period in line with the decrease in the contract portfolio. This was due to the management strategy of shifting the focus from Murabaha contracts to Ijara contracts due to Ijara contracts relying on the variable profit rate related to SIBOR (see Section 4.3.1 for more details on the nature of Ijara contracts), as well as the possibility of deducting Ijara contracts from the zakat base owing to the nature of these contracts, This assumption is based on the following:

When calculating zakat, the Company deducts the assets from the zakat base, resulting in a decrease in zakat expenses. As Ijara contracts require that the assets be owned by the Company until the end of the contract (see 4.3.1 for details on the nature of Ijara contracts), these assets may be deducted from the Company's zakat base.

Income from Murabaha contract fees amounted to SAR 349,000 in 2018G, consisting mainly of prepaid administrative fees, which are amortized over the finance period as part of the effective yield of the financial assets (up to 1% of the finance value).

Income from Ijara contracts

This represents income from Ijara and Istisna contracts in the corporate segment and Ijara contracts in the retail segment. Income from Ijara contracts increased from SAR 211.0 million in 2016G to SAR 224.1 million in 2017G due to shifting the focus from Murabaha to Ijara contracts to minimize the Company's market volatility risk related to SIBOR by offering four types of financing: (A) a variable financing rate (less risky where profit is linked to the movement of SIBOR); (B) a minimum variable financing rate (this means that the profit rate charged throughout the financing period cannot be less than a predetermined rate (minimum price) despite decline of SIBOR); (C) a maximum variable financing rate (which means that the profit rate charged throughout the financing period is hedged in such a way that the total payment rate does not exceed 5%); and (D) a fixed financing rate (profits paid on financing are not subject to change).

In accordance with the rules and provisions of Islamic Sharia and upon review and approval of the Company's Sharia Committee, the Company adopts one of the following measures upon expiry of an Ijara Contract:

1. Retrieve the asset from the lessee;
2. Renew the lease;
3. Lease the asset to another lessee;
4. Sell the asset to the head tenant or a third party;
5. Donate the asset to the lessee.

Income from Ijara contracts increased by 6.2% from SAR 211.0 million in 2016G to SAR 224.1 million in 2017G as a result of an increase in retail segment income from SAR 66.1 million to SAR 76.0 million during the same period, driven by the Company's strategy to shift focus from Murabaha to Ijara contracts in order to alleviate the potential burden of zakat, as mentioned above, in addition to taking advantage of the variable profit rates on Ijara contracts. In addition, income from Istisna contracts increased from SAR 5.8 million in 2016G to SAR 10.0 million in 2017G as a result of the increase in the financing portfolio and financing rate. This was offset by a decline in corporate segment income from SAR 134.8 million in 2016G to SAR 133.6 million in 2017G as a result of an increase in income by SAR 6.3 million, with outstanding profit accounts, representing accrued income that has not yet been collected, growing by SAR 7.5 million due to an increase in overdue accounts as a result of late payment by some customers.

Income from Ijara contracts increased by 5.6% from SAR 224.1 million in 2017G to SAR 236.6 million in 2018G as a result of an increase in corporate segment income from SAR 133.6 million to SAR 150.2 million during the same period in line with the Company's strategy to shift focus to Ijara contracts for the same reasons already mentioned. This was offset by a decline in retail segment income from SAR 76.0 million in 2017G to SAR 72.2 million in 2018G due to a downturn in financing portfolio volume due to the sale of a financing portfolio consisting of Ijara and mawsofa fi athemmah contracts in the same period. Income from Istisna contracts was fixed at SAR 10.0 million in 2018G.

Income from Ijara contract fees amounted to SAR 4.3 million in 2018G, consisting mainly of prepaid administrative fees, which are amortized over the finance period as part of the effective yield of the financial assets (up to 1% of the finance value of contracts for corporate and high-net-worth individual customers).

Income from Ijara mawsofa fi athemmah contracts

Income from Ijara mawsofa fi athemmah contracts relates to real estate projects under construction with real estate developers at the Company, under which the customer is contracted to purchase the unit under construction for future payments similar to other products offered by the Company.

Income from Ijara mawsofa fi athemmah contracts increased by 5.3% from SAR 7.3 million in 2016G to SAR 7.6 million in 2017G as a result of an increase in the portfolio (+13 contracts), as well as a rise in outstanding profits by SAR 695,000 during the same period.

However, income from Ijara mawsofa fi athemmah contracts decreased by 16.3% from SAR 7.6 million in 2017G to SAR 6.4 million in 2018G in line with a downturn in the portfolio (-39 contracts), in addition to the sale of a financing portfolio with a net worth of SAR 104.7 million to Saudi Real Estate Refinance Company during the same period.

Net fees and commissions

Table (97): Net fees and commissions for the years ended 31 Dec 2016G, 2017G and 2018G

(SAR'000)	2016G Management information	2017G Management information	2018G Management information
Fee and commission income	4,581	5,870	7,725
Charge expenses	(1,535)	(1,422)	(1,581)
Net fees and commissions	3,046	4,448	6,144

Source: Management information.

The Company uses net fees and commissions in its analysis in lieu of total fee and commission income, as in the Company's audited financial statements for 2017G and 2018G.

Processing and appraisal fees consist of administrative fees for the purpose of managing the customer portfolio and property appraisal fees. Fees vary by contract and sector, with the retail segment fees for Ijara and Murabaha contracts amounting to SAR 3,000 (of which SAR 2,000 is for appraisal fees and SAR 1,000 for administrative fees). Fees for Istisna contracts amount to SAR 4,000 (SAR 2,000 appraisal fees and SAR 2,000 administrative fees). Fees for corporate segment customers are a maximum of 1% of the finance amount, divided into administrative fees for portfolio management and property appraisal. Fee expenses represent mainly the cost of valuation of property, which is the fee paid by the Company to independent valuators for the purpose of conducting real estate valuation of the property or the properties included in the financing contract for each client.

Net fees and commissions increased by 45.2% from SAR 3.1 million in 2016G to SAR 4.5 million in 2017G due to the increase in the number and amount of contracts during the same period.

Net fees and commissions increased by 35.6% from SAR 4.5 million in 2017G to SAR 6.1 million in 2018G due to higher service fees from loans sold as part of the sale of the portfolio, referred to previously, in 2018G.

It is worth mentioning that the increase in fee and commission income from SAR 3.1 million in 2016G to SAR 5.9 million in 2017G and SAR 7.7 million in 2018G was mainly driven by reclassification of fees and commission expenses by the Company's Auditor. Historically, the Company directly deducted expenses from income, and the net income was recognized in the statement of profit and loss. In 2017G and 2018G, the Company recognized income and expenses separately in the statement of profit and loss.

6.3.3 Income by segment

Table (98): Income by segment as of 31 December 2016G, 2017G and 2018G

(SAR'000)	2016G Management information	2017G Management information	2018G Management information	CAGR 2016G-2018G
Revenues:				
Corporate segment	185,222	180,408	183,043	(0.6%)
Retail segment	75,165	85,584	82,459	4.7%
Total revenues*	**260,387**	**265,992**	**265,502**	**1.0%**
Cost:				
Corporate segment	(54,934)	(60,175)	(57,741)	2.5%
Retail segment	(23,387)	(27,568)	(27,026)	7.5%
Cost of investments	(3,488)	(4,012)	(3,320)	(2.4%)
Total cost	**(81,809)**	**(91,755)**	**(88,087)**	**3.8%**
Profit:				
Corporate segment	130,288	120,233	125,302	(1.9%)
Retail segment	51,778	58,016	55,432	3.5 %
Gross profit	178,578	174,237	177,414	(0.3%)
As % of revenue				Percentage point 2016G-2018G
Corporate segment	71.1%	67.8%	68.9%	(2.2)
Retail segment	28.9%	32.2%	31.1%	2.2
Gross profit margin				
Corporate segment	70.3%	66.6%	68.5%	(1.9)
Retail segment	68.9%	67.8%	67.2%	(1.7)
Total	**68.6%**	**65.5%**	**66.8%**	**(1.8)**

Source: Management information.

* The analysis was prepared based on net fees and commissions, rather than the total fees and commissions used in the financial statements of the Company.

Corporate segment

The corporate segment comprises both private companies and high-net-worth individuals, i.e. individuals who have a contract with the Company with a value of at least SAR 5 million. The income of high-net-worth individuals has been stated in corporate segment income due to their similar investment objectives and the limitations of the Company's technical systems. Revenues of the corporate segment accounted for 68.4% of total revenues, representing 71.1% in 2016G, 67.8% in 2017G, and 68.9% in 2018G.

Revenue of the corporate segment declined 2.6% from SAR 185.2 million in 2016G to SAR 180.4 million in 2017G as a result of lower financing operations due to overall economic slowdown.

Corporate segment revenue increased by 1.4% from SAR 180.4 million in 2017G to SAR 183 million in 2018G due to an increase in corporate Ijara income (from SAR 133.6 million to SAR 150.2 million) driven by an increase in number of contracts (+24 new contracts) in line with the change in the Company's strategy to focus on Ijara contracts as mentioned earlier. This was offset by a decrease in Murabaha contracts for the corporate segment (from SAR 28.8 million to SAR 15.9 million) for the same reason mentioned above. They depend on the variable profit rate associated with SIBOR rate (see 4.3.1 for more details on the nature of Ijara contracts) and Ijara contracts may be deducted from zakat base due to the nature of these contracts in accordance with the above assumption.

Corporate costs increased by 9.5% from SAR 54.9 million in 2016G to SAR 60.2 million in 2017G due to an increase in the SIBOR rate in addition to an increase in SIBOR+ charged by banks during the last period. They represent costs of bank facilities and borrowing charges incurred by the Company.

Corporate costs decreased by 4.2% from SAR 60.2 million in 2017G to SAR 57.7 million in 2018G due to a decrease in costs of bank facilities in line with a decrease in portfolio size resulting from the sale of the aforementioned financing portfolio. These loans were paid upon completion of the sale of the financing portfolio.

Gross profit of the corporate segment increased by 7.7% from SAR 130.3 million in 2016G to SAR 120.2 million in 2017G due to an increase in the SIBOR rate and SIBOR+ charged by banks as mentioned earlier.

Gross profit of the corporate segment increased by 4.2% from SAR 120.2 million in 2017G to SAR 125.3 million in 2018G due to an increase in return on assets by 0.3 percentage points in addition to a decrease in bank facility charges in the same period.

Retail segment

Table (99): Retail segment revenues by branch as of 31 December 2016G, 2017G and 2018G

(SAR'000)	2016G Management information	2017G Management information	2018G Management information	CAGR 2016G-2018G
Riyadh	39,748	41,098	38,382	(1.7%)
Jeddah	21,946	27,742	27,900	12.8%
Dammam	13,471	16,744	16,177	9.6%
Total revenues*	**75,165**	**85,584**	**82,459**	**4.7%**
As % of revenue				Percentage point 2016G-2018G
Riyadh	52.9%	48.0%	46.6%	(6.3)
Jeddah	29.2%	32.4%	33.8%	4.6
Dammam	17.9%	19.6%	19.6%	1.7

Source: Management information.

The retail segment accounts for revenues from the Company's branches in Riyadh, Dammam and Al Khobar. Retail segment revenues represented 28.9% in 2016G, 32.2% in 2017G and 31.1% in 2018G. All retail segment contracts are subject to a floating profit rate (excluding Murabaha contracts) based on SIBOR+.

Revenues from the retail segment increased by 13.9% from SAR 75.2 million in 2016G to SAR 85.6 million in 2017G due to an increase in the volume of the financing portfolio.

Revenues from the retail segment decreased by 3.6% from SAR 85.6 million in 2017G to SAR 82.5 million in 2018G mainly driven by the sale of a financing portfolio to Saudi Real Estate Refinance Company which resulted in selling part of a portfolio of SAR 104.7 million. This led to a decrease in retail segment revenues.

Retail segment costs increased by 19.7% from SAR 23.4 million in 2016G to SAR 28.0 million in 2017G due an increase in SIBOR and SIBOR+ charged by banks during the same period.

Retail segment costs decreased by 1.8% from SAR 28.0 million in 2017G to SAR 27.5 million in 2018G in line with a decrease in the volume of the financing portfolio. This led to a decrease in borrowing volume during the same period.

Net profit of the retail segment increased by 12.0% from SAR 51.8 million in 2016G to SAR 58.0 million in 2017G due to an increase in the number and amount of self-employed customers. This was offset by an increase in bank facilities and borrowing costs (SAR +4.2 million).

Gross profit for the retail segment decreased by 4.4% from SAR 58.0 million in 2017G to SAR 55.4 million in 2018G due to an increase in average borrowing costs in line with the increase in SIBOR+.

6.3.4 Borrowing facility cost and charges

Table (100): Borrowing facility cost and charges for the financial years ended 31 December 2016G, 2017G and 2018G

(SAR'000)	2016G Management information	2017G Management information	2018G Management information	CAGR 2016G-2018G
The Saudi Investment Bank	27,817	29,786	24,366	(6.4%)
Gulf International Bank	10,883	12,257	14,530	15.8%
Samba Financial Group	10,199	13,508	13,757	16.1%
Alawwal Bank	11,718	8,556	12,208	2.1%
Bank AlJazira	4,379	8,004	9,368	46.3%
SABB	6,035	6,310	6,628	4.8%
Al Rajhi Bank	3,208	6,017	4,871	23.2%
Bank Albilad	7,936	6,155	2,216	(47.2%)
(Gains)/losses of derivatives	(366)	1,164	144	-
Total	**81,809**	**91,755**	**88,087**	**3.8%**

Source: Management information.

Borrowing facility cost and charges relate to costs related to the day-to-day operating of the Company which are used to finance the Company's activities. Financing from banks represents mainly medium-term loans of 3 to 5 years with a variable profit margin extended by different local banks as per the rates offered by each bank. Given the nature of the financing structure, the Company relies on hedging instruments such as profit rate swaps if needed, and these payments are transferred with variable profit margin to fixed cost payments. The majority of lending transactions are repaid at a fixed value.

Borrowing facility cost and charges increased by 12.2% from SAR 81.8 million in 2016G to SAR 91.8 million in 2017G as a result of the high SIBOR rate and the high interest rate charged to the Company by banks as a cost for bank facilities extended by some banks.

Borrowing facility cost and charges decreased by 4.0% from SAR 91.8 million in 2017G to SAR 88.1 million in 2018G mainly due to a decrease in SIBOR and a decrease in the bank lending rate.

(Gains)/losses of derivatives

(Gains)/losses of derivatives consist of payments from the Company or Company receivables related to profit rate swaps. Profit or loss depends on the difference between the fixed rate agreed by the Company with the loan provider and the SIBOR rate. The Company has entered into profit rate swaps mainly to minimize the risk of market volatility. These gains/losses are shown as part of the cost of bank facilities. The Company increases the cost of bank facilities by the value of derivative losses and reduces the cost of bank facilities by the value of derivative gains. Derivative gains are recognized as an account payable that reduces the balance of cost.

Derivative (gains)/losses decreased from gains of SAR 366,000 in 2016G to a loss of SAR 1.2 million in 2017G due to a decrease in the SIBOR rate during the same period, in addition to a lower number of profit rate swaps compared to 2016G.

Derivative (gains)/losses decreased from losses of SAR 1.2 million in 2017G to losses of SAR 144,000 in 2018G due to the expiration of contracts with a negative impact.

6.3.5 General and administrative expenses

Table (101): General and administrative expenses for the financial years ended 31 December 2016G, 2017G and 2018G

(SAR'000)	2016G Amended	2017G Audited	2018G Audited	CAGR 2016G-2018G
Salaries and employee-related expenses	46,640	49,863	49,184	2.7%
Rental	2,766	2,899	3,241	8.2%
Professional fees	3,196	2,043	3,134	(1.0%)
Depreciation *	2,030	-	-	(100.0%)
Directors' fees and expenses	2,900	3,424	2,461	(7.9%)
Information technology expenses	2,339	2,082	2,259	(1.7%)
Travel expenses	850	879	1,122	14.9%
Communications	683	798	756	5.2%
Maintenance expenses	519	552	687	15.1%
Others	2,704	2,506	3,958	21.0%
Total general and administrative expenses	**64,627**	**65,046**	**66,802**	**1.7%**
As % of revenue				Percentage point 2016G-2018G
Salaries and employee-related expenses	17.9%	18.6%	18.4%	0.5
Rental	1.1%	1.1%	1.2%	0.1
Professional fees	1.2%	0.8%	1.2%	-
Depreciation	0.8%	-	-	(0.8)
Directors' fees and expenses	1.1%	1.3%	0.9%	(0.2)
Information technology expenses	0.9%	0.8%	0.8%	(0.1)
Travel expenses	0.3%	0.3%	0.4%	0.1
Communications	0.3%	0.3%	0.3%	-
Maintenance expenses	0.2%	0.2%	0.3%	0.1
Others	1.0%	0.9%	1.5%	0.5
Total	**24.8 %**	**24.3%**	**25.0%**	**0.2**

Source: Audited and reviewed financial statements as of 31 December 2016G, 2017G and 2018G.

* Depreciation was presented using a different method in 2017G and 2018G. Depreciation was removed from the general and administrative expenses and recorded in a separate item in the income statement.

Salaries and employee-related expenses

Salaries and employee-related expenses consist mainly of salaries, benefits and other compensation. Salaries and employee-related expenses increased by 6.9% from SAR 46.6 million in 2016G to SAR 49.9 million in 2017G due to an increase in the number of employees from 101 to 109 employees during the same period.

Salaries and employee-related expenses decreased by 1.4% from SAR 49.9 million in 2017G to SAR 49.2 million in 2018G due to a decrease in end of service benefit expenses by SAR 2.2 million in line with the resignation of a manager, who will not be replaced in the future.

Remuneration of directors and committee members

The remuneration of directors and other committee members relates mainly to expenses paid as directors' fees and incentives to attend board meetings. The Company's Director Remuneration Policy for 2016G was as follows: Full remuneration will be paid to members who attend 75% of the meetings during the year. If they attend less than 75% of the total annual meetings, members will receive remuneration in proportion to the total number of meetings attended. In 2017G, the Company's remuneration policy for directors and committee members was changed so that remuneration is in proportion to the total number of meetings attended by the member. Director and committee member fees declined at a CAGR of 7.9% from 2016G to 2018G.

Director and committee member fees decreased by 28.1% from SAR 3.4 million in 2017G to SAR 2.5 million in 2018G due to reversal of the expenses of the directors' fees payable in previous years.

Rental expenses

Rent relates to payments made for the rental of the headquarters and branches, water, electricity and security expenses. Rental expenses increased slightly by 4.8% from SAR 2.8 million in 2016G to SAR 2.9 million in 2017G due to higher operating costs.

Rental expenses increased by 11.8% from SAR 2.9 million in 2017G to SAR 3.2 million in 2018G due to higher operating and maintenance costs accounted for as rental expenses.

Professional fees

Professional fees consist of expenses paid to companies or consultants providing services to the Company, including but not limited to legal, financial or auditing services according to the Company's needs during the year. Professional fees decreased by 36.1% from SAR 3.2 million in 2016G to SAR 2.0 million in 2017G due to a decrease in consultancy and legal fees by SAR 2.7 million. This decrease was offset by an increase in other professional fees by SAR 1.4 million.

Professional fees increased by 53.4% from SAR 2.0 million in 2017G to SAR 3.1 million in 2018G due to an increase in legal expenses driven by reversal of expenses by SAR 889,000 in 2017G to SAR 262,000 in 2018G, which relates to legal case fees. This was offset against late fees paid, in line with Sharia principles.

Information technology expenses

IT expenses decreased by 11.0% from SAR 2.3 million in 2016G to SAR 2.1 million in 2017G. IT expenses increased by 8.5% from SAR 2.1 million in 2017G to SAR 2.3 million in 2018G due to an increase in software maintenance and security support for operating programs.

Travel expenses

Travel expenses relate to employees' business trips and are paid monthly as part of the employee's salary. Travel expenses remained relatively stable at SAR 868,000 from 2016G to 2017G. Travel expenses increased by 27.6% from SAR 879,000 in 2017G to SAR 1.1 million in 2018G due to an increase in business trips during the same period related to new opportunities and frequent travel of the Company's representatives during the period to complete conveyance procedures throughout the Kingdom.

Communication expenses

Communication expenses consist of Internet, telephone and other expenses. Communication expenses increased slightly by 16.8% from SAR 683,000 in 2016G to SAR 798,000 in 2017G due to improvements in Internet and telephone lines during the same period. Communication expenses decreased slightly by 5.3% from SAR 798,000 in 2017G to SAR 756,000 in 2018G, and remained stable as a proportion of revenue at 0.3% during the same period.

Maintenance expenses

Maintenance costs include two types of costs: (a) Costs incurred jointly with Orix and (b) costs incurred by the Company. Costs incurred jointly with Orix relate to maintenance costs for the common spaces between the two companies such as corridors, elevators and others. Maintenance expenses increased slightly by 6.4% from SAR 519,000 in 2016G to SAR 552,000 in 2017G related to the cost of maintenance materials due to a decrease in services provided by the maintenance company, which covered the costs of maintenance materials in the previous decade. Maintenance expenses increased by 24.5% from SAR 552,000 in 2017G to SAR 687,000 in 2018G due to servicing of the Company's branch in Riyadh, which was opened in 2017G.

Other expenses

Other expenses consisted of bank fees (38.7% of the total other expenses in 2017G), staff training (15.9% of the total other expenses in 2017G), equipment rental (12.9% of the total other expenses in 2017G), and other expenses. Other expenses decreased by 7.3% from SAR 2.7 million in 2016G to SAR 2.5 million in 2017G due to a decrease in subscription fees and staff training expenses. This decrease was offset by an increase in bank expenses during the same period.

Other expenses increased by 57.9% from SAR 2.5 million in 2017G to SAR 4.0 million in 2018G due to an increase in bank expenses (SAR +720,000) related to letters of guarantee, and an increase in staff training costs in line with the increase in the number of employees during the period.

6.3.6 Selling and marketing expenses

Table (102): Selling and marketing expenses for the financial years ended 31 December 2016G, 2017G and 2018G

(SAR'000)	2016G Amended	2017G Audited	2018G Audited	CAGR 2016G-2018G
Marketing expenses	4,000	3,021	3,200	(10.6%)
Outsourcing costs	2,595	2,883	2,463	(2.6%)
Insurance expenses	2,325	3,051	2,545	4.6%
Total	**8,920**	**8,955**	**8,208**	**(4.1%)**
As % of revenue				Percentage point 2016G-2018G
Marketing expenses	1.5%	1.1%	1.2%	(0.3)
Outsourcing costs	1.0%	1.1%	0.9%	(0.1)
Insurance expenses	0.9%	1.1%	1.0%	0.1
Total	**3.4%**	**3.4%**	**3.1%**	**(0.3)**

Source: Audited financial statements as of 31 December 2016G, 2017G and 2018G.

Marketing expenses

Marketing expenses decreased by 24.5% from SAR 4.0 million in 2016G to SAR 3.0 million in 2017G due to a decrease in costs of marketing activities and termination of the agency contract with the marketing agency, in line with a decline in economic activity in the market.

Marketing expenses increased slightly by 5.9% from SAR 3.0 million in 2017G to SAR 3.2 million in 2018G. These expenses mainly included fees paid for digital marketing (SAR +285,000), and fees paid to an advertising agency (SAR +117,000). This was offset by a decrease in show sponsorship costs (SAR -293,000).

Outsourcing costs (recruitment)

Outsourcing costs relate to recruitment of employees for the purpose of operating the sales activities of the Company's branches in Riyadh (SAR 1.1 million), Jeddah (SAR 882,000) and Al Khobar (SAR 479,000) in 2018G. Outsourcing costs decreased by 14.6% from SAR 2.9 million in 2017G to SAR 2.5 million in 2018G in line with a decrease in sales costs at the office branch in Riyadh (SAR -386,000) during the same period due to a decline in marketing activity.

Insurance expenses

Insurance expenses were SAR 2.5 million in 2018G and consist of life insurance and customer property insurance. Insurance expenses increased by 31.2% from SAR 2.3 million in 2016G to SAR 3.0 million in 2017G due to an increase in life insurance expenses in line with an increase in financing operations and amounts during 2017G.

Insurance expenses decreased by 16.6% from SAR 3.0 million in 2017G to SAR 2.5 million in 2018G by 59.6% due to a decrease in the number of transactions for the retail segment (the volume of the financing portfolio) in addition to the sale of a financing portfolio to Saudi Real Estate Refinance Company and The Saudi Investment Bank over the same period.

6.3.7 Net loss/profit for the year

Table (103): Net loss/profit for the financial years ended 31 December 2016G, 2017G and 2018G

(SAR'000)	2016G	2017G	2018G	CAGR 2016G-2018G
Other operating income, net	13,460	9,411	28	(95.4%)
Net operating expenses	(82,998)	(80,394)	(80,056)	(1.8%)
Profit before zakat and income tax	109,040	103,254	97,613	(5.4%)
Net profit for the year	109,040	103,254	97,613	(5.4%)

Source: Management information as of 31 December 2016G, 2017G and 2018G.

Other operating income, net

Other net operating income relates mainly to arrangement fees and share in net (loss)/income from joint ventures and portfolio sale gains. Other operating income was SAR 13.5 million in 2016G, SAR 9.4 million in 2017G and SAR 28,000 in 2018G.

Operating expenses

Operating expenses amounted to SAR 80.0 million in 2018G and mainly consisted of general and administrative expenses (SAR 66.8 million) and selling and marketing expenses (SAR 8.2 million). They also included the provision for credit losses, representing the provision for receivables outstanding for more than 90 days and fines of SAR 250 per day of delay as of the 16th day after the due date. The Company donates fines to charities or exempts customers therefrom. As of 2018G, the Company adopted IFRS 9, under which the Company is required to make provision for expected credit losses for all receivables (financial assets). This provision is based on the expected credit losses related to any potential default in the next 12 months unless there is a significant increase in credit risk since its inception. ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- **Financial assets that are not credit-impaired at the reporting date**: as the present value of all cash shortfalls (i.e., the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive), and
- **Financial assets that are credit-impaired at the reporting date**: as the difference between the gross carrying amount and the present value of estimated future cash flows.

Operating expenses decreased by 3.1% from SAR 83.0 million in 2016G to SAR 80.4 million in 2017G as a result of a decrease in the provision for credit losses from SAR 9.5 million in 2016G to SAR 1.4 million in 2017G due to the slow increase in portfolio size from 2016G to 2017G. This was offset by a slight increase in general and administrative expenses driven by the increase in the number of employees during the period and annual pay increase.

Operating expenses decreased by 0.4% from SAR 80.4 million in 2017G to SAR 80.1 million in 2018G as a result of a decrease in the provision for credit losses from SAR 1.4 million to a reversal of SAR 98,000 of expenses, as the Company made adequate provision under the expected credit losses policy.

Net profit for the year

Net income for the year decreased by 5.2% from SAR 109.0 million in 2016G to SAR 103.3 million in 2017G due to a slight increase in revenues as a result of economic slowdown during the same period and higher borrowing facility cost and charges and lower proceeds from joint investments. Net income for the year decreased by 5.5% from SAR 103.3 million in 2017G to SAR 97.6 million in 2018G as a result of the decline in the Company's profits from joint ventures during the same period, as stated above.

6.4 Results of audited statement of financial position

Table (104): Audited statement of financial position as of 31 December 2016G, 2017G and 2018G

(SAR'000)	31 December 2016G Amended	31 December 2017G Audited	31 December 2018G Audited	CAGR 2016G-2018G
Assets				
Bank balances and cash on hand	9,347	29,634	15,965	30.7%
Murabaha receivables, net	432,042	260,749	108,256	(49.9%)
Ijara receivables, net	2,537,413	2,744,421	2,902,822	7.0%
Ijara mawsofa fi athemmah receivables, net	120,218	116,696	79,662	(18.6%)
Available-for-sale investments	10,988	12,887	-	N/A
Investments at fair value through other comprehensive income (FVOCI)	-	-	12,484	N/A
Positive fair value of derivatives	2,582	1,046	1,087	(35.1%)
Prepaid expenses and other assets	34,921	103,218	106,985	75.0%
Zakat and tax	-	-	-	N/A
Investments in joint ventures	112,824	29,530	7,922	(73.5%)
Property and equipment, net	29,182	28,899	27,838	(2.3%)
Total assets	**3,289,517**	**3,327,080**	**3,263,020**	**(0.4%)**
Liabilities and shareholders' equity				
Accrued expenses and other liabilities	40,392	68,312	92,086	51.0%
Zakat and income tax payable	4,003	3,722	36,790	203.2%
Bank loans	2,102,270	2,072,175	1,994,132	(2.6%)
Negative fair value derivatives	746	666	-	N/A
Employee benefits	8,834	12,909	13,618	24.2%
Total liabilities	**2,156,245**	**2,157,784**	**2,136,626**	**(0.5%)**
Shareholders' equity				
Share capital	900,000	903,000	906,000	0.3%
Statutory reserve	41,329	51,654	61,415	21.9%
AFS reserve	(1,012)	887	-	N/A
Fair value reserve			(409)	N/A
Cash flow hedge reserve	1,836	380	1,087	(23.1%)
Retained earnings	191,119	213,375	158,301	(9.0%)
Total shareholders' equity	**1,133,272**	**1,169,296**	**1,126,394**	**(0.3%)**
Total liabilities and shareholders' equity	**3,289,517**	**3,327,080**	**3,263,020**	**(0.4%)**
KPIs				Percentage point 2016G-2018G
Return on assets	3.3%	3.1%	3.0%	(0.3)
Return on equity	9.6%	8.8%	8.7%	(0.9)

Source: Audited financial statements as of 31 December 2016G, 2017G and 2018G.

6.4.1 Total assets

Table (105): Assets as of 31 December 2016G, 2017G and 2018G

(SAR'000)	31 December 2016G Amended	31 December 2017G Audited	31 December 2018G Audited
Bank balances and cash on hand	9,347	29,634	15,965
Murabaha receivables, net	432,042	260,749	108,256
Ijara receivables, net	2,537,413	2,744,421	2,902,822
Ijara mawsofa fi athemmah receivables, net	120,218	116,696	79,662
Available-for-sale investments	10,988	12,887	-
Investments at fair value through other comprehensive income (FVOCI)	-	-	12,484
Positive fair value of derivatives	2,582	1,046	1,087
Prepaid expenses and other assets	34,921	103,218	106,985
Zakat and tax	-	-	-
Investments in joint ventures	112,824	29,530	7,922
Property and equipment, net	29,182	28,899	27,838
Total assets	**3,289,517**	**3,327,080**	**3,263,020**

Source: Audited financial statements as of 31 December 2016G, 2017G and 2018G.

6.4.2 Bank balances and cash on hand

Table (106): Bank balances and cash on hand as of 31 December 2016G, 2017G and 2018G

(SAR'000)	31 December 2016G Amended	31 December 2017G Audited	31 December 2018G Audited
Bank balance	9,324	29,611	15,940
Cash on hand	23	23	25
Total bank balances and cash on hand	**9,347**	**29,634**	**15,965**

Source: Audited financial statements as of 31 December 2016G, 2017G and 2018G.

Bank balances and cash on hand amounted to SAR 16.0 million as of 31 December 2018G and were comprised mainly of the Company's bank balances consisting of facilities granted or provision of liquidity to pay them during the period, as well as customers' financing deposits according to the agreed repayment schedule. The Company's policy was to specify minimum cash on hand at a fixed value of SAR 23,000 during the historical period up to 31 December 2017G to maintain a minimum cash balance for out of pocket expenses. Cash on hand increased to SAR 25,000 as of 31 December 2018G as a result of the increase in cash custody of the Company's branch in Riyadh.

Bank balance increased from SAR 9.3 million as of 31 December 2016G to SAR 29.6 million as of 31 December 2017G, before declining to SAR 16.0 million as of 31 December 2018G due to the change in the Company's financial needs during the period.

6.4.3 Murabaha receivables, net

Table (107): Net Murabaha receivables as of 31 December 2016G, 2017G and 2018G

(SAR'000)	31 December 2016G Amended	31 December 2017G Audited	31 December 2018G Audited
Gross Murabaha receivables	512,957	296,843	131,985
Less: Unearned income	(73,548)	(33,321)	(18,519)
Gross Murabaha receivables (net of unearned income)	**439,409**	**263,522**	**113,466**
Less: Provision for credit losses	(7,367)	(2,773)	(5,210)
Murabaha receivables, net	**432,042**	**260,749**	**108,256**
Receivables turnover ratio (one year)	**11**	**12**	**12**

Source: Audited financial statements as of 31 December 2016G, 2017G and 2018G, and the Company .

Table (108): Net Murabaha receivables by business segment as of 31 December 2016G, 2017G and 2018G

(SAR'000)	31 December 2016G Management information	31 December 2017G Management information	31 December 2018G Management information
Corporate segment	320,364	168,227	50,151
High-net-worth individuals	116,352	93,356	62,057
Retail segment	2,693	1,939	1,257
Gross Murabaha receivables	**439,409**	**263,522**	**113,466**
Less: Provision for credit losses	(7,367)	(2,773)	(5,210)
Murabaha receivables, net	**432,042**	**260,749**	**108,256**

Source: Management information as of 31 December 2016G, 2017G and 2018G.

Murabaha receivables, net

A Murabaha agreement is an agreement whereby the Company sells an asset to a customer after the Company has purchased said asset, based on a promise from the customer to buy the asset from the Company. The selling price includes the cost plus an agreed profit margin. Gross amounts due under Murabaha sale contracts include the total of future sale payments on the Murabaha agreement. The advance payment ranges from 0.5% to 1% of the contract value and is amortized over the term of the contract. Net Murabaha receivables decreased from SAR 432.0 million as of 31 December 2016G to SAR 260.7 million as of 31 December 2017G due to the decrease in corporate Murabaha receivables from SAR 320.4 million to SAR 168.2 million as nine financings matured during the period. This was also attributed to the Management's strategy to shift focus from Murabaha to Ijara contracts to take advantage of the higher SIBOR rate, due to the nature of Ijara contracts with their income depending on SIBOR, rather than being fixed as in the case of Murabaha contracts, and the possibility of zakat exemption. In addition, Murabaha receivables of high-net-worth individuals decreased from SAR 116.4 million in 2016G to SAR 93.4 million in 2017G as a result of the early settlement of one borrowing (before its maturity date) in 2016G.

Net Murabaha receivables decreased from SAR 260.7 million as of 31 December 2017G to SAR 108.3 million as of 31 December 2018G as a result of a decline in corporate Murabaha receivables from SAR 168.2 million to SAR 50.1 million as seven borrowings fell due during the period. This was also attributed to the decline in Murabaha receivables of high-net-worth individuals from SAR 93.4 million as of 31 December 2017G to SAR 62.1 million as of 31 December 2018G due to the decrease in the number of borrowings from eleven in 2017G to eight in 2018G as a result of the early repayment of four borrowings and registration of one new Murabaha contract during the period. The total decrease in Murabaha receivables during the historical period was attributed to the shift of the Company's focus from Murabaha to Ijara contracts due to:

1) Hedging against any potential fluctuations in SIBOR by focusing on the sale of Ijara contracts given the nature of Ijara contract, in which the customer incurs a certain percentage agreed upon on the commencement date of the contract, in addition to SIBOR+.

(2) The potential inclusion of Ijara contracts as an asset in the tax base of the Company, which might lead to their exemption from zakat. As stated above, this works as follows: When calculating zakat, the Company deducts some of its assets from the zakat base, resulting in a decrease in zakat expenses. As Ijara contracts require that the assets be owned by the Company until the end of the contract (see Section (1.3.4) "**Ijara Receivables**" for details on the nature of Ijara contracts), these contracts may be deducted as assets from the Company's zakat base upon GAZT approval. This makes Ijara contracts a more strategic option for the Company.

The provision for Murabaha contract credit losses decreased from SAR 7.4 million as of 31 December 2016G to SAR 2.8 million as of 31 December 2017G and increased to SAR 5.2 million as of 31 December 2018G as illustrated in the table below.

Movement in the provision for Murabaha receivable credit losses was as follows:

Table (109): Movement in the provision for Murabaha receivable credit losses as of 31 December 2016G, 2017G and 2018G

(SAR'000)	31 December 2016G	31 December 2017G	31 December 2018G
Balance at beginning of year	5,813	7,367	2,773
Additions	1,554	(4,594)	2,437
Balance at end of year	**7,367**	**2,773**	**5,210**

Source: Management information as of 31 December 2016G, 2017G and 2018G.

In 2017G, the Company transferred SAR 4.6 million from the balance of Murabaha contracts provision to the Ijara contracts provision, based on the recognition of a specific provision under IAS 39, with the balance of Murabaha contracts provision being SAR 2.8 million as of 31 December 2017G.

The provision for Murabaha contract credit losses amounted to SAR 5.2 million as of 31 December 2018G. The Company made the provision based on movement in the financing portfolio during the year. The Company made a provision of up to 1.55% in 2016G, with growth in the financing portfolio contributing to the increase in the provision during the same period. In 2017G, SAR 4.6 million of the balance of Murabaha contracts provision was reclassified and transferred to the Ijara contract provision as IAS 39 requires the calculation of a specific provision. The balance of Murabaha contract provision was SAR 2.8 million as of 31 December 2017G.

As of 1 January 2018G, the Company adopted IFRS 9, under which the Company is required to make provision for expected credit losses for all debt securities and other loans and financial assets not retained at fair value through profit or loss along with loan obligations and financial guarantee contracts (if any). This provision is based on the expected credit losses related to any potential default in the next twelve months unless there is a significant increase in credit risk since its inception. If a financial asset meets the definition of purchased or originated impaired credit, the provision shall be based on a change in the expected credit loss to the life of the asset. This resulted in an increase in the provision for Murabaha receivables by SAR 2.4 million to SAR 5.2 million as of 31 December 2018G.

The maturity schedule of Murabaha contracts as of 31 December 2018G is as follows:

Table (110): Maturity of Murabaha contracts as of 31 December 2018G

(SAR'000)	Less than one year	One to five years	More than five years	Total
Gross Murabaha receivables	54,144	73,734	4,107	131,985
Less: Unearned income	(7,699)	(10,305)	(515)	(18,519)
Gross Murabaha receivables (net of unearned income)	**46,445**	**63,429**	**3,592**	**113,466**
Less: Provision for credit losses	-	-	-	(5,210)
Murabaha receivables, net	**-**	**-**	**-**	**108,256**

Source: Audited financial statements as of 31 December 2018G.

6.4.4 Ijara receivables, net

Table (111): Net Ijara receivables as of 31 December 2016G, 2017G and 2018G

(SAR'000)	31 December 2016G Amended	31 December 2017G Audited	31 December 2018G Audited
Gross Ijara receivables	3,330,111	3,609,120	3,948,092
Less: Unearned income	(752,993)	(818,541)	(962,803)
Gross Ijara receivables (net of unearned income)	**2,577,118**	**2,790,579**	**2,985,289**
Less: Provision for credit losses	(39,705)	(46,158)	(82,467)
Ijara receivables, net	**2,537,413**	**2,744,421**	**2,902,822**

Source: Audited financial statements as of 31 December 2016G, 2017G and 2018G.

Table (112): Net Ijara receivables by business segment as of 31 December 2016G, 2017G and 2018G

(SAR'000)	31 December 2016G Management information	31 December 2017G Management information	31 December 2018G Management information
Corporate segment	1,112,025	1,227,883	1,378,665
Retail segment	819,875	888,520	910,769
High-net-worth individuals	645,218	674,176	965,855
Gross Ijara receivables	**2,577,118**	**2,790,579**	**2,985,289**
Less: Provision for credit losses	(39,705)	(46,158)	(82,467)
Ijara receivables, net	**2,537,413**	**2,744,421**	**2,902,822**

Source: Management information as of 31 December 2016G, 2017G and 2018G.

Ijara receivables, net

Ijara receivables represent assets under Islamic leases. Ijara contracts are either Ijara (ending with title transfer), done by transferring the leased asset to the lessee as a donation at the end of the contract, or Istisna contracts, which represent project finance contracts. The ownership of the asset is transferred to the lessee as a donation upon completion at the end of the contract. Prepaid fees are charged to customers of the corporate segment and high-net-worth individuals at 1% of the contract value and are amortized during the term of the contract. These fees consist of assessment fees for property assessment and management fees for management of customer portfolio divided by the internal rate of return. Fees charged to retail customers amounted to SAR 3,000, divided into assessment fees (SAR 2,000) and management fees (SAR 1,000). Fees charged to Istisna customers amounted to SAR 4,000, divided into assessment fees (SAR 2,000) and management fees (SAR 2,000) recognized as revenue in the same year.

In addition, as stated above, the Company follows the standards and principles of Islamic Sharia as reviewed and approved by the Company's Sharia Committee, as it provides the asset as a donation to the lessee (customer) at the end of the Ijara contract.

Net Ijara receivables increased from SAR 2.5 billion as of 31 December 2016G to SAR 2.7 billion as of 31 December 2017G due to the increase in contracts of the corporate segment (including the conclusion of 21 new contracts, maturity of four contracts and the early settlement (before the maturity date) of two contracts during the same period) and of the retail segment (including the conclusion of 133 new contracts in line with the Company's strategy to shift focus to Ijara contracts in order to hedge against SIBOR fluctuations and the potential reduction of zakat charges).

Net Ijara receivables increased from SAR 2.7 billion as of 31 December 2017G to SAR 2.9 billion as of 31 December 2018G due to increased contracts for the corporate segment (conclusion of +24 new contracts and maturity and early settlement of 17 contracts during the same period) and of the retail segment (conclusion of +305 new contracts and the maturity and settlement of 202 contracts during the same period). This increase was offset by the sale of a financing portfolio to Saudi Real Estate Refinance Company for a net amount of SAR 104.7 million as at 11 May 2018G (the date of the portfolio sale). It was also offset by an increase in the provision for Ijara losses from SAR 46.2 million as of 31 December 2017G to SAR 82.5 million as of 31 December 2018G due to the increase in the provision under the adoption of IFRS 9 as of 1 January 2018G as stated above.

Movement in the provision for Ijara receivable credit losses was as follows:

Table (113): Movement in the provision for Ijara receivable credit losses as of 31 December 2016G, 2017G and 2018G

(SAR'000)	31 December 2016G Amended	31 December 2017G Audited	31 December 2018G Audited
Balance at beginning of year	32,172	39,705	46,158
Additions	7,533	6,453	36,309
Balance at end of year	**39,705**	**46,158**	**82,467**

Source: Audited financial statements as of 31 December 2016G, 2017G and 2018G.

The balance of the provision for Ijara receivable credit losses amounted to SAR 82.5 million as of 31 December 2018G. The provision balance increased from SAR 39.7 million as of 31 December 2016G to SAR 46.2 million as of 31 December 2017G as a result of the addition of SAR 6.5 million to the provision due to transfer of part of the Murabaha provision (SAR 4.6 million) and the provision for Ijara mawsofa fi athemmah (SAR 0.6 million) to the Ijara provision. This was attributed to the requirement to make a specific provision. The provision for Ijara receivable credit losses increased to SAR 82.5 million as of 31 December 2018G as a result of the adoption of IFRS 9 on 1 January 2018G, under which the Company is required to record the expected credit loss of all debt securities, loans and trade receivables on a 12-month or lifetime basis.

Table (114): Maturity of Ijara contracts as of 31 December 2018G

(SAR'000)	Less than one year	One to five years	More than five years	Total
Ijara contracts	1,011,366	2,048,796	887,930	3,948,092
Unearned income	(234,500)	(481,066)	(247,237)	(962,803)
Ijara contracts (net of unearned income)	**776,867**	**1,567,730**	**640,693**	**2,985,289**
Provision for credit losses	-	-	-	(82,467)
Ijara contracts, net	**-**	**-**	**-**	**2,902,822**

Source: Audited financial statements as of 31 December 2018G.

6.4.5 Ijara mawsofa fi athemmah receivables, net

Table (115): Net Ijara mawsofa fi athemmah receivables as of 31 December 2016G, 2017G and 2018G

(SAR'000)	31 December 2016G Amended	31 December 2017G Audited	31 December 2018G Audited
Gross Ijara mawsofa fi athemmah contract receivables	201,174	187,232	131,864
Less: Unearned income	(79,071)	(69,269)	(51,973)
Gross Ijara mawsofa fi athemmah contract receivables (net of unearned income)	**122,103**	**117,963**	**79,891**
Less: Provision for credit losses	(1,885)	(1,267)	(229)
Ijara mawsofa fi athemmah contract receivables, net	**120,218**	**116,696**	**79,662**

Source: Audited financial statements as of 31 December 2016G, 2017G and 2018G.

Ijara mawsofa fi athemmah is a financing product tailored to finance real estate under construction for individuals. The real estate is purchased from the owner (the developer) under an Istisna procurement contract in installments based on the construction phases and the percentage of construction completion, and is leased to the customer under an Ijara mawsofa fi athemmah contract with the promise to donate the ownership to the customer at the end of the lease term.

Ijara mawsofa fi athemmah receivables decreased from SAR 120.2 million as of 31 December 2016G to SAR 116.7 million as of 31 December 2017G as a result of the maturity of 22 of the Company's contracts and the decrease in the amount and number of borrowings due to the general economic slowdown that affected the lending levels and the real estate market in the Kingdom. This was offset by the conclusion of nine new contracts during the same period.

The balance of Ijara mawsofa fi athemmah receivables decreased from SAR 116.7 million as of 31 December 2017G to SAR 79.7 million as of 31 December 2018G as a result of the decrease in the size of the financing portfolio (43 contracts) due to selling a portfolio to Saudi Real Estate Refinance Company for SAR 104.7 million. The sold portfolio was comprised of Ijara and mawsofa fi athemmah contract receivables. This was also attributed to the maturity of 55 contracts during the same period. This was offset by the conclusion of 16 new contracts as of the date of the financing portfolio sale, 11 May 2018G, during the same period.

Movement in the provision for Ijara mawsofa fi athemmah receivable credit losses was as follows:

Table (116): Movement in the provision for Ijara mawsofa fi athemmah receivable credit losses as of 31 December 2016G, 2017G and 2018G

(SAR'000)	31 December 2016G Amended	31 December 2017G Audited	31 December 2018G Audited
Balance at beginning of year	1,549	1,885	1,267
Additions	336	(618)	(1,038)
Balance at end of year	1,885	1,267	229

Source: Audited financial statements as of 31 December 2016G, 2017G and 2018G.

* In 2017G, the Company reclassified SAR 618,000 from the provision for Ijara mawsofa fi athemmah contracts to the provision for Ijara contracts according to the specific provision method under IAS 39.

The provision for Ijara mawsofa fi athemmah credit losses amounted to SAR 229,000 as of 31 December 2018G. The provision balance decreased from SAR 1.9 million as of 31 December 2016G to SAR 1.3 million as of 31 December 2017G due to the reclassification of SAR 618,000 to the provision for Ijara receivable losses according to the specific provision method under IAS 39.

The provision decreased from SAR 1.3 million as of 31 December 2017G to SAR 229,000 as of 31 December 2018G as a result of a decrease in the size of the financing portfolio due to the sale of a financing portfolio during the same period as stated above.

Table (117): Maturity of Ijara mawsofa fi athemmah contracts as of 31 December 2018G

(SAR'000)	Less than one year	One to five years	More than five years	Total
Ijara mawsofa fi athemmah contracts	12,608	43,780	75,476	131,864
Unearned income	(5,674)	(19,515)	(26,784)	(51,973)
Ijara mawsofa fi athemmah contracts (net of unearned income)	**6,934**	**24,265**	**48,692**	**79,891**
Provision for credit losses				(229)
Ijara mawsofa fi athemmah contracts, net				79,662

Source: Audited financial statements as of 31 December 2018G.

Table (118): Aged accounts as of 31 December 2016G, 2017G and 2018G

(SAR'000)	31 December 2016G Management information	31 December 2017G Management information	31 December 2018G Management information	Provision for credit losses [31 December 2018G]	Provision for credit losses as a % of aged accounts [31 December 2018G]
Corporate segment	131,099	184,991	147,923	80,077	54.1%
Retail segment	11,439	15,533	19,520	3,335	17.1%
High-net-worth individuals	7,600	8,051	8,165	4,494	55.0%
Total	**150,138**	**208,575**	**175,608**	**87,906**	**50.1%**

Source: Management information.

Aged accounts increased from SAR 142.1 million as of the end of 2016G to SAR 191.2 million as of the end of 2017G due to an increase in customers' deferred outstanding amounts given the slowdown in the overall economy. Aged accounts decreased to SAR 151.4 million as of the end of 2018G from SAR 191.2 million as of the end of 2017G due to the improved general economic situation and the Company targeting specific sectors of its corporate customers.

Aged receivables include Murabaha and Ijara contracts that are more than 90 days past due. The Company applies the customer collection policy by:

1. Reminding the customer 10 days before the maturity date;
2. Reminding the customer on the maturity date; and
3. Reminding the customer 15 days after the maturity date.

The Company will also transfer the request to the Company's Legal Department in case of further delay. In addition, the Company automatically downgrades the credit rating of a customer who fails to pay on time more than once. However, it does not downgrade the credit rating of a customer who fails to pay on time only one time, and just issues a notice of maturity to the customer. The Company offers the option of loan restructuring to customers facing financial constraints. The Company restructured 60 borrowings amounting to SAR 821.9 million from 2016G to 2018G.

Below are the details of the portfolios sold:

Table (119): Contracts in the portfolio sold as of 11 May 2018G (date of portfolio sale) and 31 December 2018G

(SAR'000)	11 May 2018G Management information	31 December 2018G Management information
Ijara	110,366	109,886
Ijara mawsofa fi athemmah	39,246	37,667
Total portfolio	**149,612**	**147,553**
Ijara	77,659	78,340
Ijara mawsofa fi athemmah	27,021	26,023
Portfolio, net	**104,680**	**104,363**

Source: Management information.

6.4.6 Available-for-sale investments and investments at fair value through other comprehensive income

Table (120): Available-for-sale investments and investments at fair value through other comprehensive income as of 31 December 2016G, 2017G and 2018G

(SAR'000)	31 December 2016G Amended	31 December 2017G Audited	31 December 2018G Audited
Cost at beginning and end of the year	12,000	12,000	12,000
Additions during the year	-	-	893
Unrealized gains:			
At beginning of year	(688)	(1,012)	887
Change in fair value, net	(324)	1,899	(1,296)
At end of year	**(1,012)**	**887**	**(409)**
Net carrying amount	**10,988**	**12,887**	**12,484**

Source: Audited financial statements as of 31 December 2016G, 2017G and 2018G.

* In 2017G, the Company transferred two joint ventures (Dar Wa Emar and Tharaa Real Estate Investment) to other assets, as it decided to exit these two projects.

Available-for-sale investments and investments at fair value through other comprehensive income amounted to SAR 12.5 million as of 31 December 2018G and consisted of investments with Alistithmar for Financial Securities and Brokerage Company (Alistithmar Capital) related to Saraya Tower Real Estate Development Fund, a closed real estate development fund managed by Alistithmar Capital with no maturity, and evaluated every six months. Net change in fair value gains and losses of this investment are charged to the statement of shareholders' equity. The Company intends to liquidate this investment in 2019G and recognize any gains and losses in other income/losses. The net book value of available-for-sale investments increased from SAR 11.0 million as of 31 December 2016G to SAR 12.9 million as of 31 December 2017G driven by gains from net change in fair value of the Fund during the year (SAR 1.9 million).

Net book value of available-for-sale investments and investments at fair value through other comprehensive income decreased from SAR 12.9 million as of 31 December 2017G to SAR 12.5 million as of 31 December 2018G due to change in fair value of the fund during the period (resulting in a loss of SAR 1.3 million). It should be noted that the Company has recognized the gains/losses from change in fair value of investments through other comprehensive income in 2018G under items that will not be reclassified later to profit or loss. Therefore, they are separated from available-for-sale investments and recognized as investments at fair value through other comprehensive income in the statement of financial position as of 2018G (see statement of comprehensive income).

The Company has a 120-unit stake in Saraya Tower Real Estate Development Fund with an initial value of SAR 100,000 per unit. This investment will be settled after the sale of all the developed real estate units in 2019G.

Positive/negative fair value of derivatives

The Company held profit rate swaps with a nominal value of SAR 100 million as of 31 December 2018G (compared to SAR 200 million as of 31 December 2017G) to hedge its exposure to commission rate risk related to long-term financing and leasing, falling due in 2020G. Any profits/losses from changes to the fair value of derivatives is recognized under retained earnings in other comprehensive income/loss. The positive fair value of derivatives increased from SAR 1.0 million as of 31 December 2017G to SAR 1.1 million as of 31 December 2018G due to the approaching maturity date.

6.4.7 Prepaid expenses and other assets

Table (121): Movement in prepaid expenses and other assets as of 31 December 2016G, 2017G and 2018G

(SAR'000)	31 December 2016G Amended	31 December 2017G Audited	31 December 2018G Audited
Other real estate assets	-	88,237	84,951
Receivable from joint ventures	28,286	8,540	4,784
Accrued profit on derivatives	1,882	1,295	965
Prepaid rent	669	669	3,619
Value added tax receivable	-	-	4,613
Others	4,084	4,477	8,053
Net prepaid expenses and other assets	34,921	103,218	106,985

Source: Audited financial statements as of 31 December 2016G, 2017G and 2018G.

Other real estate assets

Other real estate assets are comprised of real estate in joint ventures that have been exited through acquisition by the Company. Other real estate assets amounted to SAR 88.2 million as of 31 December 2017G and SAR 85.0 million as of 31 December 2018G, as the Company transferred two joint ventures (Dar Wa Emar and Tharaa Real Estate Investment representing villas and apartments in Al Khobar) to other assets during 2017G. The key assets of the joint ventures were settled in kind according to the stake of each shareholder. The Company considered these assets available-for-sale investments and recorded them as an asset at the lower of cost and fair value of the related property less any selling expenses.

Receivables from joint ventures

Receivables from joint ventures relate to amounts not collected from the Company's investments in joint ventures with other real estate development companies (villas, residential compounds, etc.). Receivables from joint ventures decreased from SAR 28.3 million as of 31 December 2016G to SAR 8.5 million as of 31 December 2017G as a result of the collection of accounts receivable during the period. Receivables from joint ventures decreased from

SAR 8.5 million as of 31 December 2017G to SAR 4.8 million as of 31 December 2018G as a result of the collection of receivables and the decrease in joint venture transactions during the same period.

Accrued profit on derivatives

Accrued profit on derivatives relates to the profit accumulated for three months of profit rate swaps to hedge exposure to commission rate risk related to long-term financing and leasing, which is disbursed every three months. Accrued profit on derivatives decreased from SAR 1.9 million as of 31 December 2016G to SAR 1.3 million as of 31 December 2017G due to the decrease in the volume of derivative contracts with the Company during the same period. Accrued profit on derivatives declined to SAR 965,000 as of 31 December 2018G for the same reason.

Prepaid rent

Prepaid rent expenses relate to the Company's head office and branches. The prepaid rent balance stood at SAR 669,000 as of 31 December 2016G and 2017G. Prepaid rent increased to SAR 3.6 million as of 31 December 2018G as a result of moving the head office in Riyadh to a better location with higher rent. The move will occur in 2019G. The lease has a grace period of four months.

Value added tax receivable

Value added tax receivable amounted to SAR 4.6 million as of 31 December 2018G and related to the value added tax receivable from the Ministry of Housing, which was applied as of 1 January 2018G. The State incurs the VAT on citizen's first homes (retail customers), when citizens purchase a residential house for the first time (at an amount of more than SAR 850,000). Whereas the Company purchases the asset (residential house) on behalf of its customers, the Company pays the tax to GAZT and then requests a refund from the Ministry of Housing.

Others

Other prepaid expenses relate to the Company's joint investments and prepaid expenses and advances to employees during the period under analysis. Other prepaid expenses increased from SAR 4.1 million as of 31 December 2016G to SAR 4.5 million as of 31 December 2017G. Afterwards, they increased from SAR 4.5 million as of 31 December 2017G to SAR 8.1 million as of 31 December 2018G. This increase was attributed to the subscription expenses incurred by the Company on behalf of the Selling Shareholders, which were equivalent to SAR 3.3 million at the end of the year.

Deferred tax and zakat

As of 1 January 2017G, in line with a SAMA Circular, the Company amended its accounting policy relating to zakat and began to recognize zakat within shareholders' equity and charge the same to retained earnings. It had been charged to the statement of profit and loss. This amendment resulted in a decrease in the deferred tax and zakat balance to zero as of 31 December 2016G, 2017G and 2018G. Starting from the second quarter of 2019G, and in line with the latest instructions issued by SAMA on 17/07/2019G, the Company has amended the recognition of Zakat and tax to the income statement.

Investments in joint ventures

Investments in joint ventures consist of partnerships with more than one real estate developer (villas, residential complexes, etc.) and target retail customers. These investments account for two types of agreements: (A) a joint investment agreement with a shareholder; and (b) a real estate development agreement with a developer. Developers' contracts fall due once the construction is completed and prior to the sale of the real estate. However, the joint investment agreement continues in full force and effect until the amounts due from the sale of investments have been collected.

In 2014G, SAMA's real estate financing regulations prohibited financing companies from making any real estate investments, but allowed them to complete existing projects until their maturity dates. Therefore, the balance of joint venture investments declined during the historical period due to project completion and sale of assets.

Investments in joint ventures decreased from SAR 112.8 million as of 31 December 2016G to SAR 29.5 million as of 31 December 2017G due to the completion of investments and the collection of amounts from customers. During the year, the Company liquidated one of the projects and transferred two joint ventures to other assets after they had been transferred to the Company. Investments in joint ventures decreased to SAR 7.9 million as of 31 December 2018G due to the completion of investments and the collection of amounts from customers until such projects were completed, the assets sold and the investments liquidated under SAMA's decision.

Table (122): Investments in joint ventures as of 31 December 2018G

Project name (SAR '000)	Location	% of shareholding	Opening balance	Additions	Share in net income	Withdrawals	Closing balance
Dar Wa Emar, Olaya	Al Olaya, Al Khobar	50%	11,218	-	-	(11,218)	-
Dar Wa Emar, Rahba	Rahba, Al Khobar	90%	9,280	-	(240)	(3,990)	5,050
AbdulAziz Al Qassim, Malga III	Malga, Riyadh	40%	9,032	1,235	-	(7,395)	2,872
Total			**29,530**	**1,235**	**(240)**	**(22,603)**	**7,922**

Source: Audited financial statements as of 31 December 2018G.

Table (123): Investments in joint ventures as of 31 December 2017G

Project name (SAR '000)	Location	% of shareholding	Opening balance	Additions	Share in net income	Withdrawals	Closing balance
Dar Wa Emar, Olaya	Al Olaya, Al Khobar	50%	39,725	5,072	4,609	(38,188)	11,218
Dar Wa Emar, Rahba	Rahba, Al Khobar	90%	17,488	-	650	(8,858)	9,280
AbdulAziz Al Qassim, Malga III	Malga, Riyadh	40%	27,482	718	3,135	(22,303)	9,032
Tharaa Real Estate Investment	Al Marooj, Al Khobar	50%	8,595	46,440	-	(55,035)	-
Al Masharia Al Oula	Al Yasmin District, Riyadh	60%	14,125	-	517	(14,642)	-
Saudi Kyan III	Al Nawras, Al Khobar	60%	5,409	-	-	(5,409)	-
Total			**112,824**	**52,230**	**8,911**	**(144,435)**	**29,530**

Source: Audited financial statements as of 31 December 2017G.

6.4.8 Property and Equipment

Table (124): Property and equipment as of 31 December 2016G, 2017G and 2018G

(SAR'000)	31 December 2016G Amended	31 December 2017G Audited	31 December 2018G Audited
Land	18,655	15,750	13,650
Work in progress	3,893	7,074	10,018
Information technology equipment	4,128	4,012	2,831
Leasehold improvements	1,778	1,417	1,148
Furniture and fixtures	509	417	10
Office equipment	219	229	181
Total net book value	**29,182**	**28,899**	**27,838**

Source: Audited financial statements as of 31 December 2016G, 2017G and 2018G.

During 2018G, the Company de-recognized assets of SAR 1.8 million which consisted of leasehold improvements, furniture and fixtures and office equipment, due to the planned relocation of the Company's head office in the second quarter of 2019G.

Property and equipment amounted to SAR 27.8 million as of 31 December 2018G and consisted mainly of land (SAR 13.7 million), work in progress (SAR 10.0 million) and information technology equipment (SAR 2.8 million) which together accounted for 95.2% of the total net book value of property and equipment. Property and equipment decreased slightly from SAR 29.2 million as of 31 December 2016G to SAR 28.9 million as of 31 December 2017G due to a decrease of SAR 2.9 million in the value of land located in northern Riyadh owned by the Company for the purpose of building the Company's head office. This was according to an evaluation study that indicated a decrease in the market value due to changes in market conditions during the same period. It should be noted that the planned construction of the Company's head office was postponed and a building was leased during the year. This was offset by an increase in work in progress due to additions of SAR 3.2 million related to the upgrade of the Company's main operating system. Property and equipment decreased to SAR 27.8 million as of 31 December 2018G due to loss resulting from the evaluation of the land owned by the Company again in 2018G, where the land value fell by SAR 2.1 million. This was offset by an increase in work in progress by SAR 1.1 million, in connection with the application of the Islamic financing management system T24 and additions of SAR 488,000 to electronic equipment related to accounting systems during the same period.

Land

The value of land amounted to SAR 13.6 million as of 31 December 2018G and related to the land owned by the Company. It decreased from SAR 18.7 million as of 31 December 2016G to SAR 15.8 million as of 31 December 2017G due to the decline in the value of land owned by the Company located in northern Riyadh (to build the Company's head office; as the Company changed its plan and rented a building during 2019G) by SAR 2.9 million according to a study conducted by the Company during the same period. The value of land declined to SAR 13.6 million as of 31 December 2018G according to another study, resulting in a further impairment of SAR 2.1 million.

Work in progress and leasehold improvements, including leased assets, are reported in Table ([124]). Leased premises are not recognized in the Company's premises and equipment.

Work in progress

Work in progress increased from SAR 3.9 million as of 31 December 2016G to SAR 7.1 million as of 31 December 2017G due to additions related to upgrade of the Company's main operating system. It should be noted that the Company's policy is to capitalize items whose value exceeds SAR 500. Work in progress increased to SAR 10.0 million as of 31 December 2018G due to additions of SAR 2.9 million related to the application of the Islamic financing management system T24.

Due to the expansion of the Company's business, as the Company's current head office cannot keep pace with the expected developments in the size of the Company's business, the Company has decided to move to a location that meets its aspirations and provides a suitable environment for its business. Therefore, it has rented an alternative building for the current head office for an annual rent value of SAR 2.5 million for the first five years and an annual rent value of SAR 2.75 million, should the lease last for an additional five years. The new administrative headquarters is currently in the pipeline and will be operational in the first half of 2019G. An amount of SAR 6 million has been allocated for furnishing and equipment costs, which will be transferred to fixed assets upon completion of the head office. Depreciation expenses will be estimated over a period of five years according to the Company's policy. The current head office will be vacated and handed over following completion of the works.

Information technology equipment

Information technology equipment amounted to SAR 2.8 million as of 31 December 2018G and related to information systems hardware and software. Information technology equipment decreased from SAR 4.1 million as of 31 December 2016G to SAR 4.0 million as of 31 December 2017G due to depreciation. Information technology equipment decreased to SAR 2.8 million as of 31 December 2018G due to depreciation for the period (SAR 1.7 million) and additions (SAR 551,000) during the same period.

Leasehold improvements

Leasehold improvements relate to modifications to the Company's offices and administrative buildings. Leasehold improvements decreased from SAR 1.8 million as of 31 December 2016G to SAR 1.4 million as of 31 December 2017G due to depreciation during the same period. Leasehold improvements decreased to SAR 1.1 million as of 31 December 2018G as a result of depreciation for the period by SAR 386,000, in addition to exclusions (SAR 776,000) relating to the relocation of the Company's head office.

Furniture and fixtures

Furniture and fixtures decreased from SAR 509,000 as of 31 December 2016G to SAR 417,000 as of 31 December 2017G as a result of depreciation during the same period. Furniture and fixtures decreased to SAR 10,000 as of 31 December 2018G as a result of depreciation (SAR 137,000) and exclusions (SAR 690,000). This was offset by additions of SAR 72,000 related to the Company's branch in Riyadh, which was opened in 2017G.

Office equipment

Office equipment, related to filing boxes and safes, increased from SAR 219,000 as of 31 December 2016G to SAR 229,000 as of 31 December 2017G, as a result of additions of SAR 80,000 during the same period. Office equipment decreased to SAR 181,000 as of 31 December 2018G as a result of depreciation of SAR 68,000 during the same period.

6.4.9 Return on Assets

Return on assets decreased slightly from 3.3% as of 31 December 2016G to 3.0% as of 31 December 2017G driven by the slow increase in outstanding balances (+ SAR 32.2 million) and lower net income (- SAR 5.5 million) mainly due to a decrease in proceeds from investments in joint ventures and an increase in financing costs during the same period. Return on assets decreased slightly to 2.9% as of 31 December 2018G due to lower net income (- SAR 5.6 million). This decline was offset by a decrease in receivables (- SAR 31.1 million).

6.4.10 Total Liabilities

Table (125): Total liabilities as of 31 December 2016G, 2017G and 2018G

(SAR'000)	31 December 2016G Amended	31 December 2017G Audited	31 December 2018G Audited
Accrued expenses and other liabilities	40,392	68,312	92,087
Zakat and income tax payable	4,003	3,722	36,790
Bank loans	2,102,270	2,072,175	1,994,132
Negative fair value of derivatives	746	666	-
Employee benefits	8,834	12,909	13,618
Total liabilities	**2,156,245**	**2,157,784**	**2,136,626**

Source: Audited financial statements as of 31 December 2016G, 2017G and 2018G.

6.4.11 Accrued expenses and other liabilities

Table (126): Accrued expenses and other liabilities as of 31 December 2016G, 2017G and 2018G

(SAR'000)	31 December 2016G Amended	31 December 2017G Audited	31 December 2018G Audited
Financing to customers	590	28,073	21,163
Employee related expenses and salaries	14,654	13,705	10,205
Amount received from Murabaha and Ijara customers	11,985	7,820	8,857
Accrued expenses	8,930	7,932	6,330
Payable to the Ministry of Housing	-	-	26,278
Others	4,233	10,782	19,253
Total	**40,392**	**68,312**	**92,086**

Source: Audited financial statements as of 31 December 2016G, 2017G and 2018G.

Financing to customers

Financing to customers mainly relates to contracts concluded at the end of the financial year, where the necessary administrative procedures related to vacation of real estate have been completed. Financing to customers increased from SAR 590,000 as of 31 December 2016G to SAR 28.1 million as of 31 December 2017G as a result of a check of SAR 17.0 million not paid to a customer due to the non-completion of special administrative procedures during 2017G. Financing to customers decreased to SAR 21.2 million as of 31 December 2018G as a result of payment of the check disbursed as of 31 December 2017G.

Employee related expenses and salaries

Employee related expenses and salaries are comprised of employee incentives and remuneration and Directors' costs and remuneration. Employee related expenses and salaries decreased from SAR 14.7 million as of 31 December 2016G to SAR 13.7 million as of 31 December 2017G as a result of a decrease in the Management's outstanding remuneration (- SAR 1.1 million), mainly related to Board meeting attendance expenses. Employee related expenses and salaries fell to SAR 10.2 million as of 31 December 2018G driven by the decrease in employee outstanding remuneration of SAR 2.3 million during the same period.

Amount received from Murabaha and Ijara customers

The amount received from Murabaha and Ijara customers is prepayments received from customers before maturity. The amount received from Murabaha and Ijara customers decreased from SAR 12.0 million as of 31 December 2016G to SAR 7.8 million as of 31 December 2017G due to the maturity of customers' prepaid balances. This was mainly related to corporate customers. The amount received from Murabaha and Ijara customers increased to SAR 8.9 million as of 31 December 2018G, driven by the higher number of payments received from customers due to the early settlement of more than one contract during the same period.

Accrued expenses

Accrued expenses mainly relate to invoices received, including those of administrative and financial services and information systems. Accrued expenses decreased from SAR 8.9 million as of 31 December 2016G to SAR 7.9 million as of 31 December 2017G due to a decrease in other accrued expenses (- SAR 487,000) during the same period. Accrued expenses decreased to SAR 6.3 million as of 31 December 2018G due to a decrease in anticipated projects and Company's requirements during the same period.

Payable to the Ministry of Housing

Payable to the Ministry of Housing amounted to SAR 26.3 million as of 31 December 2018G and related to loans provided to customers to finance properties subsided by the Ministry of Housing.

Others

Other accounts payable increased from SAR 4.2 million as of 31 December 2016G to SAR 10.8 million as of 31 December 2017G due to higher fees for late payment of amounts due from customers (from SAR 2.8 million to SAR 8.4 million during the same period). Other payables increased from SAR 10.8 million as of 31 December 2017G to SAR 19.3 million as of 31 December 2018G due to an increase in late payment fees from SAR 8.3 million to SAR 14.7 million during the same period.

6.4.12 Zakat and income tax payable

Zakat is calculated based on the zakat base for the year ended 31 December 2018G, attributable to the Saudi and GCC shareholders. Average zakat and income tax stood at SAR 2.8 million from 31 December 2016G to 2017G. Zakat and income tax amounted to SAR 36.8 million as of 31 December 2018G due to increase in the provision by SAR 33.5 million during the same period, driven by a provision of SAR 33.5 million during the year according to ongoing developments with regulators mainly based on the following:

The Company filed its zakat and tax returns for the years ended 31 December 2007G through 2017G to GAZT.

GAZT provided zakat assessments for the years from 2007G to 2012G and claimed additional zakat and income tax difference of SAR 83.9 million, including a late payment penalty. The differences resulted mainly from the non-deduction of Ijara and Murabaha, investment in joint ventures, accumulated losses and remuneration.

GAZT provided a zakat assessment for the years from 2013G to 2016G and claimed additional zakat and income tax differences of SAR 151.4 million, including a late payment penalty. The differences resulted mainly from the non-deduction of Ijara and Murabaha, investment in joint ventures, and borrowings.

For 2017G and 2018G, while calculating the zakat liability, the Company had not considered the disallowances of deduction of net investment in finance leases. If the Company had considered the above disallowances of deduction, the zakat liability would be higher by SAR 55 million and SAR 48 million respectively.

Zakat statements are prepared as per Sharia opinions that support the Company's method of calculation and according to calculation methods adopted by GAZT in a number of non-financial activities. The zakat due is paid to GAZT in accordance with the Company's calculation method within the periods determined by the Law. The Company has recorded a provision of SAR 33.5 million as its best estimate of additional zakat.

In addition, as of 31/3/2019G, zakat exposure was reduced based on the settlement agreement with GAZT and the Resolution of Zakat and Tax Dispute Settlement Committee at GAZT as follows:

- Confirming that zakat liabilities of SAR 33.7 million shall be paid against zakat exposure of SAR 254.3 million for 2013G-2017G.
- Confirming that zakat liabilities of SAR 9.5 million shall be paid against zakat exposure of SAR 48.0 million in 2018G.
- Confirming that zakat liabilities of SAR 12.4 million and income tax liabilities of SAR 205,100 shall be paid against zakat exposure and income of SAR 83.6 million for 2007G-2012G, in addition to a SAR 20,000 fine for failure to file returns.

Table (127): Zakat settlement agreement amounts for 2013G-2018G

(SAR'000)	2019G	2020G	2021G	2022G	2023G
Amount of zakat settlement for the period*	21,635	5,389	5,389	5,389	5,389

* Additional zakat claims for 2018G are included.

Table (128): Resolution of Zakat and Tax Dispute Settlement Committee amounts for 2007G-2012G

(SAR'000)	2019G	2020G	2021G	2022G	2023G
Amount of zakat settlement for the period	12,397	-	-	-	-
Income tax settlement amount for the period	205	-	-	-	-
Fine for failure to file returns for the period	20	-	-	-	-
Total	**12,622**				

6.4.13 Bank Borrowings

Table (129): Bank borrowings as of 31 December 2016G, 2017G and 2018G

(SAR'000)	31 December 2016G Amended	31 December 2017G Audited	31 December 2018G Audited
Current portion of bank borrowings	810,678	861,375	809,736
Non-current portion of bank borrowings	1,291,592	1,210,800	1,184,396
Total bank borrowings	**2,102,270**	**2,072,175**	**1,994,132**

Source: Audited financial statements as of 31 December 2016G, 2017G and 2018G.

Table (130): Bank borrowings per bank as of 31 December 2016G, 2017G and 2018G

(SAR'000)	31 December 2016G Management information	31 December 2017G Management information	31 December 2018G Management information
The Saudi Investment Bank	675,224	596,504	442,478
SABB	175,776	166,079	153,129
Alawwal Bank	178,603	233,607	364,925
GIB	255,745	398,924	226,330
Al Rajhi Bank	117,613	113,543	88,590
Bank Albilad	193,110	99,023	15,642

(SAR'000)	31 December 2016G Management information	31 December 2017G Management information	31 December 2018G Management information
Samba Financial Group	344,214	267,775	442,351
Bank AlJazira	161,985	196,720	260,688
Total	**2,102,270**	**2,072,175**	**1,994,132**

Source: Company information.

Table (131): Borrowing repayment schedule as of 31 December 2018G

(SAR'000)	2019G	2020G	2021G	2022G	2023G	Total
The Saudi Investment Bank	160,775	130,622	70,330	51,167	29,583	442,478
Samba Financial Group	167,257	136,688	82,000	56,406	-	442,351
GIB	108,580	89,958	26,958	833	-	226,330
Alawwal Bank	160,800	133,542	67,667	2,917	-	364,925
Bank AlJazira	75,838	74,900	56,950	34,250	18,750	260,688
SABB	62,254	60,625	30,250	-	-	153,129
Al Rajhi Bank	58,590	26,819	3,181	-	-	88,590
Bank Albilad	15,642	-	-	-	-	15,642
Total	**809,737**	**653,153**	**337,336**	**145,573**	**48,333**	**1,994,132**

Source: Company information.

*Note: All profits are due in 2019G.

Table (132): Details of the Company's borrowings as of 31 December 2018G

Bank	Balance used (SAR '000)	Accumulated earnings	Total	Type	Key guarantees and obligations
The Saudi Investment Bank	441,740	737	442,477	Long-term investment financing	1- The leverage ratio should not exceed 1:3 2- Minimum capital adequacy ratio for risk assets is 8% 3- Minimum capital adequacy ratio for Class I risk assets is 4% 4- Refrain from buying or redeeming any issued shares, reducing its capital or selling or distributing assets 5- A general waiver to the Bank of customer receivables acceptable to the Bank covering 125% of the total amount outstanding under the facilities.
SABB	152,125	1,004	153,129	Credit facility	1- The total debt to tangible net worth ratio must not exceed 3:1
Alawwal Bank	362,958	1,967	364,925	Credit facility	1- Net debt/receivables (short + long-term) must not exceed 80% throughout the valid term of the facilities 2- The leverage ratio (total liabilities of tangible net worth) should not be greater than 3 times throughout the valid term of the facilities. 3- The customer undertakes that the current assets to the current liabilities ratio shall not be greater than one time throughout the valid term of the facilities.

Bank	Balance used (SAR '000)	Accumulated earnings	Total	Type	Key guarantees and obligations
GIB	224,667	1,663	226,330	Uncommitted credit facility	1- The customer shall maintain the coverage ratio of the contracts waived to the bank in respect of the amounts due under the financing with a minimum of 120%. 2- The customer shall make quarterly payments irrespective of quarterly collection amounts. 3- If the ratio falls below 120%, the customer should increase the amount of the contacts waived to the bank or make early payment of part of the outstanding financing. 4- The period of outstanding amounts shall not exceed 90 days after the actual maturity date
Al Rajhi Bank	87,672	918	88,590	Credit facility	1- The ratio of total loans to tangible equity shall not be greater than 5 times. 2- The interest coverage ratio should not be less than 2 times 3- The percentage of ownership change should not exceed 5% of the ownership
Bank Albilad	15,494	148	15,642	Sharia-compliant credit facilities	1- The assigned financing portfolio is selected according to the top customers in the customer's available financing portfolio for a term of financing not exceeding the financing term of the bank facilities. The revenues of the assigned portfolio shall also cover at least 50% of the total installments for each year of the financing term. The customer shall provide the bank with an updated list of assigned customers on a semi-annual basis, reflecting at least 125% coverage of existing financing.
Samba Financial Group	440,154	2,197	442,351	Mortgage	1- The Company will not sell, transfer, lease, assign, deal with or dispose of all or any part of its business or assets (or agree to any of the foregoing) either through a single transaction or a series of transactions, whether or not they are related to each other, except for sale of receivables arising from residential mortgage contracts in the ordinary course of business. 2- The Company shall not establish or acquire any subsidiary, invest in any other entity, or provide financing to any other person, except for the first item, through commercial credit in the ordinary course of business. 3- The Company will not materially change the nature of its business. 4- The Company will not take any credit facilities from any other bank or financial institution for dividend distribution only.

Bank	Balance used (SAR '000)	Accumulated earnings	Total	Type	Key guarantees and obligations
Bank AlJazira	259,750	938	260,688	Credit facility	1- The total amount utilized within the limits shall not exceed SAR 330 million at any time.
Total	**1,984,560**	**9,573**	**1,994,132**		

Source: Company information.

The Company's bank borrowings amounted to SAR 2.0 billion as of 31 December 2018G and related to Sharia-compliant medium term Murabaha financing borrowings (from 3 to 5 years). Profit rates associated with borrowings are based on SIBOR+ according to negotiations with banks. The borrowings shall be repaid on a quarterly basis in accordance with the agreements with banks.

Some banks offer a grace period (a length of time after the due date during which payment may be made without penalty) of six months to two years according to the bank, as the principal amounts are deferred and profit rates are paid as agreed upon.

The major participant of the Company's bank borrowings is The Saudi Investment Bank, which is also a related party and a Major Shareholder at the Company. The Company's relationship with The Saudi Investment Bank is a commercial one determined by the market, as it does not offer any preferential rates to Amlak compared to other banks. SIBOR+ increased in 2016G due to market changes and declined in 2017G and 2018G. The Company used 52.0% of the facilities available as of 31 December 2018G with a grace period of two years, including the commitment fee for the average unused facility amount. In addition, the agreement includes specific coverage on the amount due and represents a certain percentage of the borrowing balance receivable as collateral. The Saudi Investment Bank is entitled to receive the same amount from Amlak receivables if it is unable to repay the borrowing.

The Company used 86.9% of the facilities available from Saudi British Bank (SABB) as of 31 December 2018G with a three-year tenure and a grace period of one year. The agreement with SABB provides for administrative fees for each transaction, and a specific coverage ratio for the amount due from the borrowing balance as collateral. SABB is entitled to receive the same amount from the Company's receivables if it is unable to repay the borrowing.

Alawwal Bank increased its borrowing cost in the financial year 2016G during the period. The Company, therefore, ceased to borrow from that bank during the period. As a result, the maximum borrowing amount decreased by SAR 150.0 million as of 1 January 2017G. A default payment will be applied annually to the amount due in case of late or default payments. Similarly, the agreement provides for specific coverage for the amount due amounting to a specified percentage of the borrowing receivable. Alawwal Bank reduced the cost of borrowing as of 31 December 2018G. The Company, therefore, increased the maximum facility amount by SAR 450.0 million and increased its utilization of facilities available from that bank compared to other banks.

Utilization of facilities available from Gulf International Bank (GIB) reached 54.0% as of 31 December 2018G, with a grace period of six months and default payment for unpaid amounts in accordance with the financing contract with GIB.

Utilization of Al Rajhi Bank's facility was less than 35.1% as of 31 December 2018G. Under the contract, there were no commitment fees or grace period. The agreement provides for lending fees for each withdrawal during the year.

Utilization of Bank Albilad's facility was 10.3% as of 31 December 2018G. The agreement with Bank Albilad does not require the Company to pay commitment fees and does not provide for a grace period during the contract period. The agreement provided for specific fees and coverage for the amounts due amounting to a percentage of the borrowing receivable. Proceeds from the amounts due must cover 50% of the annual installments of each loan, and each contract must not exceed 25% of total receivables.

The Company used 86.6% of Bank AlJazira's facilities as of 31 December 2018G with an annual repayment of 15% of the outstanding payment in case of late or default payments. The agreement provided for agency fees per transaction and specific brokerage fees or a percentage of the borrowing amount, whichever is higher. The agreement included specific coverage for amounts due at a certain percentage of the borrowing receivable.

The Company used 92.7% of Samba Financial Group's facilities with a credit limit of SAR 350.0 million as of 31 December 2018G, which increased by SAR 150.0 million in the financial year 2016G. The agreement provided for a repayment of 15% for unpaid amounts and certain coverage for receivables at a specified percentage of the borrowing receivable. In addition, Amlak shall not, at all times, allow bank borrowings (payable to creditors, overdrafts and short and long-term borrowings) to finance more than 85% of the net portfolio receivables.

6.4.14 Employee benefits

Table (133): Movement in the present value of defined benefit liabilities at the beginning of the year as of 31 December 2016G, 2017G and 2018G

(SAR'000)	31 December 2016G Amended	31 December 2017G Audited	31 December 2018G Audited
Present value of defined benefit liabilities at beginning of year	7,839	8,834	12,909
Provision recognized in the statement of profit or loss:	1,583	4,509	2,495
Current service cost	1,347	4,123	2,082
Finance cost	236	386	413
Immediate recognition of previous service cost	-	-	-
Actuarial gain (loss) on defined benefit plan recognized in the statement of other comprehensive income	-	(268)	929
Benefits paid	(588)	(166)	(2,715)
Present value of defined benefit liabilities at end of year	**8,834**	**12,909**	**13,618**

Source: Audited financial statements as of 31 December 2016G, 2017G and 2018G.

The present value of defined employee benefit liabilities increased from SAR 8.8 million as of 31 December 2016G to SAR 12.9 million as of 31 December 2017G due to the increase in the number of employees (+8) for the same period and the annual pay increases during the same period. The provision is calculated in accordance with the Company's policy pursuant to IAS 19 requirements. IAS 19 "Employee Benefits" provides an actuarial valuation to measure a company's liabilities in respect of employee benefits. The provision for employee end of service benefits increased slightly to SAR 13.6 million as of 31 December 2018G as a result of an increase in the number of employees from 109 in 2017G to 117 in 2018G.

6.5 Shareholders' Equity

Table (134): Audited shareholders' equity as of 31 December 2016G, 2017G and 2018G

(SAR'000)	31 December 2016G Amended	31 December 2017G Audited	31 December 2018G Audited
Share capital	900,000	903,000	906,000
Statutory reserve	41,329	51,654	61,415
Unrealized gains and losses on available-for-sale investments	(1,012)	887	-
Fair value reserve	-	-	(409)
Financial flows reserve	1,836	380	1,087
Retained earnings	191,119	213,375	158,301
Total	**1,133,272**	**1,169,296**	**1,126,394**

Source: Audited financial statements as of 31 December 2016G, 2017G and 2018G.

Shareholders' equity consisted of share capital (fully-paid SAR 906.0 million as of 31 December 2018G) and retained earnings (SAR 158.3 million as of 31 December 2018G). Share capital increased from SAR 900.0 million as of 31 December 2016G to SAR 903.0 million as of 31 December 2017G as a result of the Company's issuance of 300,000 shares with a value of SAR 10 per share as an incentive for employees. Share capital also increased to SAR 906.0 million as of 31 December 2018G as a result of the Company's issuance of an additional 300,000 shares as an incentive for employees.

Retained earnings increased from SAR 191.1 million as of 31 December 2016G to SAR 213.4 million as of 31 December 2017G as a result of net income for the year (+SAR 103.3 million), offset by dividends of SAR 0.75

per share, i.e., 67.7 million SAR in 2016G and 2017G. Retained earnings decreased to SAR 158.3 million as of 31 December 2018G due to the adoption of IFRS 9 which required recognition of expected credit losses and deduction thereof from retained earnings (SAR 37.8 million) and a zakat provision related to the GAZT assessment (SAR 33.5 million), as well as dividends of SAR 67.7 million during the same period.

6.6 Audited Statement of Cash Flow

Table (135): Audited statement of cash flow for the years ended 31 December 2016G, 2017G and 2018G

(SAR'000)	2016G Amended	2017G Audited	2018G Audited
Cash flows from operating activities			
Net income for the year	109,040	103,254	97,613
Adjustments to:			
Depreciation	2,030	2,054	3,044
Losses of property impairment	-	2,905	2,100
Cost of borrowings	81,809	91,755	88,087
Provision for end of service benefits	1,583	4,509	2,495
Provision for credit losses	9,422	1,434	(98)
Arrangement fees	-	-	(268)
Other income	-	-	(226)
Share of net income from other companies	(12,797)	(8,911)	240
Changes in operating assets and liabilities			
Murabaha receivables	(17,789)	175,694	150,056
Ijara receivables	(259,414)	(213,461)	(194,710)
Ijara mawsofa fi athemmah receivables	(9,695)	4,140	38,072
Prepaid expenses, accrued income and others	18,409	(68,297)	1,165
Accounts payable and accruals	(18,814)	30,920	26,774
Cash flow from operating activities	**(96,216)**	**125,996**	**214,344**
Borrowing cost paid	(77,414)	(93,019)	(87,717)
End of service benefits paid	(588)	(166)	(2,715)
Zakat and tax paid	(3,501)	(3,722)	(3,398)
Net cash from/used in operating activities	(177,719)	29,089	120,514
Cash flows from/used in investment activities			
Purchase of property and equipment	(4,064)	(4,676)	(4,082)
Proceeds from investments in joint ventures	63,156	144,435	18,164
Investments in joint ventures	(51,986)	(52,230)	(1,235)
Investments at fair value through other comprehensive income	-	-	(893)
Net cash from/used in investment activities	**7,106**	**87,529**	**11,954**
Cash flows from financing activities			
Repayment against bank borrowings	(992,586)	(846,331)	(1,164,513)
Proceeds from bank borrowings	1,229,700	817,500	1,086,100
Dividends paid	(67,500)	(67,500)	(67,725)
Net cash from/used in financing activities	**169,614**	**(96,331)**	**(146,138)**
Net decrease/increase in cash and cash equivalents	**(999)**	**20,287**	**(13,669)**
Cash and cash equivalents at beginning of year	**10,346**	**9,347**	**29,634**
Cash and cash equivalents at end of year	**9,347**	**29,634**	**15,965**

Source: Audited income statements for the years ended 31 December 2016G, 2017G and 2018G.

Cash flows from operating activities

Cash flows from operating activities increased from - SAR 177.7 million in 2016G to SAR 29.1 million in 2017G as a result of an increase in total Murabaha receivables from - SAR 17.8 million to SAR 175.7 million during the same period. Cash flows from operating activities increased to SAR 120.5 million in 2018G as a result of an increase in cash flows from Ijara receivables (SAR 18.8 million) during 2018G, offset by a decrease in cash flows from Murabaha receivables from SAR 175.7 million to SAR 150.1 million. This was attributed to the decline in the Murabaha financing portfolio due to a change in the Company's strategy to shift its focus from Murabaha contracts to Ijara contracts in order to reduce potential zakat charges during the same period, as stated above.

Cash flows from investment activities

Cash flows from investment activities increased by 1,131.8% from SAR 7.1 million in 2016G to SAR 87.5 million in 2017G due to an increase in proceeds from investments in joint ventures during the year by SAR 81.3 million as a result of the maturity of three investments with a total collected amount of SAR 75.1 million in 2017G. Cash flows from investment activities decreased to SAR 12.0 million in 2018G as a result of a decrease in proceeds from investments in joint ventures from SAR 144.4 million to SAR 18.2 million during the same period due to the completion of investments and collection of amounts due from customers.

Cash flows from financing activities

Cash flows from financing activities decreased from SAR 169.6 million in 2016G to a deficit of SAR 96.3 million in 2017G and a deficit of SAR 146.1 million in 2018G due to higher repayments of bank borrowings during the period, driven by a higher SIBOR rate. This was offset by changes in the Company's borrowing amounts during the period ranging from SAR 1.0 billion to SAR 2.2 billion during the same period.

6.7 Commitments and Contingencies

As of 31 December 2016G, the Company was committed to investments in joint ventures of SAR 52 million. The Company had facilities approved but not utilized, indicative offers issued and under customer consideration and due diligence in progress as of the reporting date which might be converted into financing of SAR 138 million. The Company had a guarantee of SAR 39.4 million. At 31 December 2017G, approved facilities increased from SAR 183 million to SAR 287 million due to an increase in the financing and marketing activities at the Company in 2017G. The Company had a guarantee of SAR 82.9 million, filed to GAZT in respect of the objection submitted by the Company. The Company was committed to investments in joint ventures of SAR 5.2 million. As of 31 December 2018G, approved facilities decreased from SAR 183 million in 2017G to SAR 96 million due to a decrease in the number of financing offers at the end of the period, and a guarantee of SAR 82.9 million continued to be effective and was submitted to GAZT.

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

Table (136): Future irrevocable lease payments by the Company

(SAR '000)	31 December 2016G	31 December 2017G	31 December 2018G
Within 1 year	1,900	659	3,095
More than 1 year, but not more than 5 years	-	909	14,598
More than five years	-	-	12,856
Total	**1,900**	**1,568**	**30,549**

Source: The Company.

6.8 Results of Operations for the Six Months Ended 30 June 2018G and 2019G

6.8.1 Income Statement

Table (137): Audited income statements for the six months ended 30 June 2018G and 2019G

(SAR'000)	For the six-month period ended 30 June 2018G Amended	For the six-month period ended 30 June 2019G Audited	Change for the six-month period of the financial years 2018G-2019G
Income from Murabaha contracts	9,976	4,102	(58.9%)
Income from Ijara contracts	114,029	126,065	10.6%
Income from Ijara mawsofa fi athemmah contracts	3,490	2,351	(32.6%)
Profit from portfolio sale	-	381	N/A
Fee and commission income	1,916	4,662	143.3%
Income from Murabaha, Ijara, and Ijara mawsofa fi athemmah	129,411	137,561	6.3%
Charge expenses	(690)	(1,524)	120.9%
Borrowing costs	(43,419)	(47,362)	9.1%
Income from Murabaha, Ijara, and Ijara mawsofa fi athemmah, net	85,302	88,675	4.0%
Other revenues	226	593	162.4%
Net operating revenue	85,528	89,268	4.4%
Depreciation and write-off	(1,100)	(1,249)	13.5%
General and administrative expenses	(32,765)	(35,887)	9.5%
Selling and marketing expenses	(3,595)	(5,205)	44.8%
Impairment allowance for credit losses, net	-	1,678	N/A
Profit before zakat and income tax	48,068	48,605	1.1%
Zakat and income tax expense			
Current year	(1,569)	(8,723)	456.0%
Prior year	-	(16,608)	N/A
Net profit for the period	46,499	23,274	(49.9%)
Other comprehensive income			
Items to be reclassified to profit or loss in subsequent years:			
Net movement in cash flow hedges	874	(3,832)	(538.4%)
Items that will not be reclassified to profit or loss in subsequent years:			
Change in fair value of available for sale investments held at Fair Value through Other Comprehensive Income (FVOCI)	(1,680)	–	N/A
Actuarial loss on defined benefit programs	(64)	(360)	(462.5%)
Total other comprehensive (loss) income	(870)	(4,192)	(381.8%)
Total other comprehensive income	45,629	19,082	(58.2%)
As % of revenue			Percentage point
Gross profit	65.9%	64.5%	(1.4)

(SAR'000)	For the six-month period ended 30 June 2018G Amended	For the six-month period ended 30 June 2019G Audited	Change for the six-month period of the financial years 2018G-2019G
Other income	0.2%	0.4%	0.3
General and administrative expenses	(25.3%)	(26.1%)	(0.8)
Profit before zakat and income tax	37.1%	35.3%	(1.8)
Net income for the period	35.9%	16.9%	(19.0)
Other comprehensive (loss) income, net	35.3%	13.9%	(21.4)

Source: Financial statements for the six months ended 30 June 2019G, and the Company.

Income from Murabaha contracts, Ijara contracts and Ijara mawsofa fi athemmah contracts, fees and commissions and profit from portfolio sale

Gross income from Murabaha contracts, Ijara contracts and Ijara mawsofa fi athemmah contracts, fees and commissions and profit from portfolio sale increased by 6.3% from SAR 129.4 million in the six months ended 30 June 2018G to SAR 137.6 million in the six months ended 30 June 2019G as a result of the increase in income from Ijara contracts from SAR 114.0 million to SAR 126.1 million in the same period, mainly due to an increase in corporate lease income by 9.3% (from SAR 70.9 million to SAR 77.6 million). This was attributed to shifting focus from Murabaha to Ijara contracts to minimize the market volatility risk for the Company in terms of SIBOR due to the nature of Ijara contracts with their income depending on SIBOR, rather than being fixed as in the case of Murabaha contracts. This increase was offset by a decrease in Murabaha income from SAR 9.9 million to SAR 4.1 million in the same period in line with the reduced portfolio size due to the management strategy of shifting focus from Murabaha to Ijara contracts and a decrease in income from Ijara mawsofa fi athemmah contracts of SAR 3.5 million to SAR 2.4 million in the same period.

Charge expenses

Charge expenses represent property valuation fees amounting to SAR 690,000 in the six months ended 30 June 2018G. Charge expenses increased to SAR 1.5 million in the six months ended 30 June 30 2019G driven by an increase in the number of contracts (+69 contracts).

Borrowing costs

The cost of borrowing facilities and charges increased by 9.1% from SAR 43.4 million in the six months ended 30 June 2018G to SAR 47.4 million in the six months ended 30 June 2019G due to the high SIBOR rate as well as an increase in the volume of the Company's borrowing during the same period.

Other operating income

Other income

Other income of SAR 226,000 for the six-month period ended 30 June 2018G relates to an arrangement fee of SAR 250,000 paid every six months by Alistithmar for Financial Securities and Brokerage Company (Alistithmar Capital) for administrative services related to Saraya Tower Real Estate Development Fund. The Company has suspended its entitlement to income to be received from Alistithmar Capital. Consequently, the Company did not record any corresponding income in the six months ended 30 June 2019G.

Other income of SAR 593,000 for the six months ended 30 June 2019G relates to:

a- Change in the fair value of investments at a fair value of SAR 343,000, classified in the interim statement of comprehensive income in the six months ended 30 June 2018G; and

b- Realized profit of SAR 250,000 as a result of the liquidation of the Company's 40% stake in AbdulAziz Al Qassim, Malga III, amounting to SAR 3.1 million.

Depreciation and write-off

Depreciation and write-off costs increased slightly by 13.5% from SAR 1.1 million in the six months ended 30 June 2018G to SAR 1.2 million in the six months ended 30 June 2019G due to an increase in information technology equipment, furniture and fixtures.

Operating expenses

General and administrative expenses

General and administrative expenses amounted to SAR 35.9 million in the six months ended 30 June 2019G and consisted mainly of salaries and staff costs (SAR 25.3 million).

General and administrative expenses increased by 9.5% from SAR 32.8 million in the six months ended 30 June 2018G to SAR 35.9 million in the six months ended 30 June 2019G due to an increase in salaries and staff costs from SAR 24.4 million to SAR 25.3 million. This increase is due to an increase in the number of employees from 117 to 130 employees during the same period. In addition to:

a- An increase in professional fees from SAR 1.4 million in the six months ended 30 June 2018G to SAR 2.4 million in the six months ended 30 June 2019G, and

b- An increase in Directors' fees from SAR 1.5 million in the six months ended 30 June 2018G to SAR 2.4 million in the six months ended 30 June 2019G.

Selling and marketing expenses

Selling and marketing expenses were SAR 5.2 million in the six months ended 30 June 2019G and consisted of outsourcing (recruitment) expenses (SAR 2.7 million), marketing expenses (SAR 1.7 million) and insurance expenses (SAR 793,000).

Selling and marketing expenses increased by 44.8% from SAR 3.6 million in the six months ended 30 June 2018G to SAR 5.2 million in the six months ended 30 June 2019G due to an increase in outsourcing expenses from SAR 1.2 million in the six months ended 30 June 2018G to SAR 2.7 million in the six months ended 30 June 2019G. This is due to the cost of outsourced sales staff being reclassified from general and administrative expenses to selling and marketing expenses.

Impairment allowance for credit losses

The Company did not make any provision for credit losses in the six months ended 30 June 2018G. Sufficient provision has been made in line with the application of IFRS 9, which was applied on 1 January 2018G.

The Company reversed its provision for credit losses amounting to SAR 1.7 million for the six months ended 30 June 2019G. The provision was found to be in excess after revaluation of receivables (financial assets).

Table (138): Table of aged receivables after deducting unearned return as of 30 June 2019G

(SAR'000)	90 days - 120 days	120 days - 180 days	180 days - 220 days	More than 220 days	Total
Corporate segment	7,629	5,642	8,082	77,475	98,828
Retail segment	4,147	2,330	-	17,471	23,948
High-net-worth individuals	-	26,285	-	8,344	34,629
Total	**11,776**	**34,257**	**8,082**	**103,290**	**157,405**

Source: Management information.

Aged receivables include Murabaha and Ijara contracts that are more than 90 days past due. The company applies the collection policy from customers by:

1. Reminding the customer 10 days before the maturity date;
2. Reminding the customer on the maturity date; and
3. Reminding the customer 15 days after the maturity date.

The Company will also transfer the request to the Company's Legal Department in case of further delay. In addition, the Company downgrades the credit rating of a customer who fails to pay on time more than once. However, it does not downgrade the credit rating of a customer who fails to pay on time only one time, and just issues a notice of maturity to the customer. The Company offers the option of restructuring the loan to customers facing financial constraints.

Zakat and income tax

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

Accordingly, the Company changed its accounting treatment for zakat and income tax by retroactively adjusting the impact in line with IAS 8.

Other comprehensive income

Net movement in cash flow hedges

Net movement in cash flow hedges consists of financial instruments to reduce the Company's exposure to commission rate risk (SIBOR) related to medium- and long-term financing. Net movement in cash flow hedges decreased from SAR 874,000 as of the six months ended 30 June 2018G to SAR -3.8 million as of the six months ended 30 June 2019G as a result of the increase in SIBOR rate during the same period.

Change in fair value of available for sale investments

The change in fair value of available for sale investments consists mainly of investments with The Saudi Investment Bank related to Saraya Tower Real Estate Development Fund, which is a closed real estate development fund managed by Alistithmar Capital with no maturity, and evaluated every six months. The fair value of available for sale investments amounted to SAR 1.7 million in the six months ended 30 June 2018G and no change to the fair value of available for sale investments was recorded as of the six months ended 30 June 2019G.

It should be noted that the Company has recognized the gains/losses from change in fair value of investments through other comprehensive income in 2018G under items that will not be reclassified later to profit or loss, given that the Company will exit these investments by the end of 2020G in accordance with SAMA's laws. Therefore, they are separated from available for sale investments and recognized as investments at fair value through other comprehensive income in the statement of financial position as of 2018G.

Loss on defined benefit plans

Loss on defined benefit plans consists of the actuarial valuation of the defined benefit plan recognized in other comprehensive income amounting to - SAR 360,000 in the six months ended 30 June 2019G.

6.8.2 Revenue by contract

Table (139): Revenue by contract for the six months ended 30 June 2018G and 2019G

(SAR'000)	For the six-month period ended 30 June 2018G Amended	For the six-month period ended 30 June 2019G Audited	Change for the six-month period of the financial years 2018G-2019G
Income from Murabaha contracts			
Corporate segment	9,681	3,984	(58.8%)
Retail segment	86	56	(34.9%)
Income fees	209	62	(70.3%)
Total income from Murabaha contracts	**9,976**	**4,102**	**(58.9%)**
Income from Ijara contracts			
Corporate segment	70,934	77,562	9.3%

(SAR'000)	For the six-month period ended 30 June 2018G Amended	For the six-month period ended 30 June 2019G Audited	Change for the six-month period of the financial years 2018G-2019G
Retail segment	36,287	38,286	5.5%
Corporate segment Istisna contracts	4,741	8,572	80.8%
Income fees	2,067	1,645	(20.4%)
Total income from Ijara contracts	**114,029**	**126,065**	**10.6%**
Income from Ijara mawsofa fi athemmah contracts			
Retail segment	3,490	2,351	(32.6%)
Gross Ijara mawsofa fi athemmah contract receivables	**3,490**	**2,351**	**(32.6%)**
Profit from portfolio sale	-	381	N/A
Fee and commission income	1,916	4,662	143.3%
Income from Murabaha contracts, Ijara contracts and Ijara mawsofa fi athemmah contracts, fees and commissions and profit from portfolio sale	**129,411**	**137,561**	**6.3%**
As % of revenue			
Income from Murabaha contracts	7.7%	3.0%	(4.7)
Income from Ijara contracts	88.1%	91.6%	3.5
Income from Ijara mawsofa fi athemmah contracts	2.7%	1.7%	(1.0)
Profit from portfolio sale	0.0%	0.3%	0.3
Fee and commission income	1.5%	3.4%	1.9

Source: Management information.

Income from Murabaha contracts

Income from corporate Murabaha contracts accounted for 97.1% of total income from Murabaha contracts as of the six months ended 30 June 2019G, while income from retail Murabaha contracts accounted for 1.4% of total income from Murabaha contracts as of the six months ended 30 June 2019G. The corporate segment includes both corporate clients and high net worth individuals, which are individuals who have a contract with the company worth not less than 5 million Saudi riyals, where the income of high net worth individuals is included in the revenues of the corporate segment due to similar investment objectives and the limited technical systems of the company.

Income from Murabaha contracts decreased by 58.9% from SAR 10.0 million as of the six months ended 30 June 2018G to SAR 4.1 million as of the six months ended 30 June 2019G due to the decline in revenues of the corporate segment from SAR 9.7 million to SAR 4.0 million during the same period as a result of the decline in the size and value of the Company's real estate and mega projects, in addition to the management strategy to shift focus from Murabaha contracts to Ijara contracts.

Income from Murabaha contract fees amounted to SAR 62,000 for the six months ended 30 June 2019G and consisted mainly of prepaid administrative fees amortized over the financial period as part of the actual income of the financial assets (up to 1% of the financing value).

Income from Ijara contracts

This represents income from Ijara and Istisna contracts in the corporate segment and Ijara contracts in the retail segment.

Income from Ijara contracts increased by 10.6% from SAR 114.0 million as of the six months ended 30 June 2018G to SAR 126.1 million as of the six months ended 30 June 2019G due to the increase in revenues of the corporate segment from SAR 70.9 million to SAR 77.6 million during the same period as a result of the Company's promotion of Ijara contracts to its customers to minimize market volatility risk in terms of SIBOR rate. The increase in revenues of the corporate segment was offset by a partial decrease due to the decline in the number of outstanding borrowings by nine from 31 December 2018G to 30 June 2019G.

Income from Istisna contracts increased from SAR 4.7 million as of the six months ended 30 June 2018G to SAR 8.6 million as of the six months ended 30 June 2019G as a result of an increase in the financing profit margin from 7.7% to 8.8% during the same period, in addition to the increase in the Istisna financing portfolio from about SAR 118 million in the six months ended 30 June 2018G to about SAR 192 million during the same period.

Income from Ijara contract fees amounted to SAR 1.6 million as of the six months ended 30 June 2019G and consisted mainly of prepaid administrative fees (up to 1% of the financing value of contracts for corporate and high-net-worth individual customers) amortized over the financing periods.

Income from Ijara mawsofa fi athemmah contracts

Revenues of Ijara mawsofa fi athemmah contracts decreased by 32.6% from SAR 3.5 million in the six months ended 30 June 2018G to SAR 2.4 million in the six months ended 30 June 2019G as a result of a decrease in the value of outstanding loans from SAR 79.7 million as of 31 December 2018G to SAR 63.9 million as of 30 June 2019G.

Table (140): Fee and commission income

(SAR'000)	For the six-month period ended 30 June 2018G Amended	For the six-month period ended 30 June 2019G Audited
Fees and commission income	1,916	4,662
Fee expense	(690)	(1,524)
Fees and commission income, net	**1,226**	**3,138**

Source: Management information.

Profit from portfolio sale

Profit from portfolio sale consists of a single transaction with Saudi Real Estate Refinance Company related to the sale of a financing portfolio of SAR 120.6 million that included 157 retail financing contracts as of 7 March 2019G. In return, the Company earned a profit from the sale of the portfolio amounting to SAR 381,000 in the six months ended 30 June 2019G.

Table (141): Portfolio sold to Saudi Real Estate Refinance Company on 7 March 2019G

(SAR'000)	Total portfolio	Net portfolio
Ijara	164,329	101,570
Ijara mawsofa fi athemmah	27,709	19,068
Total	**192,038**	**120,638**

Source: Management information.

Table (142): Value of portfolios sold as of 30 June 2019G

(SAR'000)	(SAR'000)
The Saudi Investment Bank (2016G)	7,800
Saudi Real Estate Refinance Company (2018G)	89,246
Saudi Real Estate Refinance Company (2019G)	117,087
Total	**214,133**

Source: Management information.

Fee and commission income

Fee and commission income account for fees collected by the Company for managing client portfolios and early settlement fees. Fee and commission income increased by 143.3% from SAR 1.9 million in the six months ended 30 June 2018G to SAR 4.7 million in the six months ended 30 June 2019G as a result of an increase in the total number of loans by 69 loans. Net fees and commissions increased by 156% from SAR 1.2 million in in the six months ended 30 June 2018G to SAR 3.1 million in the six months ended 30 June 2019G as a result of the increase in the number of portfolios sold and the number of new contracts during the period ended 30 June 2019G. Fee expenses represent mainly the cost of the valuation of the real estate properties.

6.8.3 Revenues by business segment

Table (143): Revenues by business segment for the six months ended 30 June 2018G and 2019G

(SAR'000)	For the six-month period ended 30 June 2018G Management information	For the six-month period ended 30 June 2019G Management information	Change for the six-month period of the financial years 2018G-2019G
Revenues			
Corporate segment	87,495	92,866	6.1%
Retail segment	41,226	42,790	3.8%
Profit from portfolio sale	-	381	N/A
Total revenues*	**128,721**	**136,037**	**5.7%**
Cost			
Corporate segment	(28,701)	(31,460)	9.6%
Retail segment	(12,904)	(14,273)	10.6%
Investments in joint ventures	(1,814)	(1,629)	(10.2%)
Total cost	**(43,419)**	**(47,362)**	**9.1%**
Profit			
Corporate segment	58,794	61,406	4.4%
Retail segment	28,322	28,517	0.7%
Investments	(1,814)	(1,248)	(31.2%)
Gross profit	85,302	88,675	4.0%
As % of revenue			
Corporate segment	68.0%	68.3%	0.3
Retail segment	32.0%	31.5%	(0.6)
Gross profit margin			
Corporate segment	67.2%	66.1%	(1.1)
Retail segment	68.7%	66.6%	(2.1)
Total	**66.3%**	**65.2%**	**(1.1)**

Source: Management information.

* The analysis was prepared based on net fees and commissions, rather than the total fees and commissions used in the financial statements of the Company.

Corporate segment

Revenues of the corporate segment accounted for 68.0% of total revenue for the six months ended 30 June 2018G and 68.3% for the six months ended 30 June 2019G.

Revenues of the corporate segment increased by 6.1% from SAR 87.5 million in the six months ended 30 June 2018G to SAR 92.9 million in the six months ended 30 June 2019G as a result of an increase in Ijara contract revenues of the corporate segment (from SAR 70.9 million to SAR 77.6 million) driven by the increase in financing margins, as well as the slight increase in financing contracts.

Costs of the corporate segment increased by 9.6% from SAR 28.7 million in the six months ended 30 June 2018G to SAR 31.5 million in the six months ended 30 June 2019G as a result of the increase in SIBOR+ charged by banks during the same period, which represent bank facility fees and borrowing charges of the Company. The Company did not charge customers the full increase in SIBOR rates due to the fixed interest rate nature of some of the Company's contracts.

Gross profit of the corporate segment increased by 4.4% from SAR 58.8 million in the six months ended 30 June 2018G to SAR 61.4 million in the six months ended 30 June 2019G as the increase in revenues was greater than the increase in cost. The increase in profit margins of the corporate segment was greater than the increase in SIBOR rates (bank financing) over the same period.

Retail segment

Table (144): Retail segment revenues by branches for the six-month period as of 30 June 2018G and 2019G

(SAR'000)	For the six-month period ended 30 June 2018G Management information	For the six-month period ended 30 June 2019G Management information	Change for the six-month period of the financial years 2018G-2019G
Riyadh	19,438	19,608	0.9%
Jeddah	13,649	14,604	7.0%
Dammam	8,139	8,577	5.4%
Total revenues*	41,226	42,790	3.8%
As % of revenue			Percentage point
Riyadh	47.1%	45.8%	(1.3)
Jeddah	33.1%	34.1%	1.0
Dammam	19.7%	20.0%	0.3

Source: Management information. The analysis was prepared based on net fees and commissions, rather than the total fees and commissions used in the financial statements of the Company.

The retail segment accounts for revenues from the Company's branches in Riyadh, Jeddah and Dammam. Revenues of the retail segment accounted for 32.0% of total revenues for the six months ended 30 June 2018G and 31.5% of the total revenues for the six months ended 30 June 2019G.

Revenues of the retail segment increased by 3.8% from SAR 41.2 million in the six months ended 30 June 2018G to SAR 42.8 million in the six months ended 30 June 2019G as a result of an increase in management fee revenues realized from the increase in the total number of portfolios sold and the increase in the number of contracts of the retail segment by 69 contracts from 31 December 2018G to 30 June 2019G. This was in line with the Company's strategy to increase the number of retail loans by a relatively lower value and lower interest rate so that the Company could later sell portfolios to Saudi Real Estate Refinance Company according to its requirements.

Costs of the retail segment increased by 10.6% from SAR 12.9 million in the six months ended 30 June 2018G to SAR 14.3 million in the six months ended 30 June 2019G as a result of higher SIBOR+ charged by banks over the same period.

Gross profit of the retail segment increased slightly by 0.7% from SAR 28.3 million in the six months ended 30 June 2018G to SAR 28.5 million in the six months ended 30 June 2019G, as the increase in revenues was offset by an increase in cost by a close amount.

6.8.4 Borrowing costs

Table (145): Borrowing costs for the six months ended 30 June 2018G and 2019G

(SAR'000)	For the six-month period ended 30 June 2018G Management information	For the six-month period ended 30 June 2019G Management information	Change for the six-month period of the financial years 2018G-2019G
The Saudi Investment Bank	13,340	12,315	(7.7%)
Samba Financial Group	5,851	9,681	65.5%
GIB	7,790	4,477	(42.5%)
Alawwal Bank	4,557	7,076	55.3%
Bank AlJazira	3,988	6,504	63.1%
SABB	3,121	3,725	19.4%
Bank Albilad	1,580	67	(95.7%)
Al Rajhi Bank	2,800	1,690	(39.7%)
NCB	-	1,614	N/A
IFRS 16-related expenses	-	333	N/A
Derivative losses/(gains)	392	(120)	(130.6%)
Total	**43,419**	**47,362**	**9.1%**

Source: Management information.

Borrowing costs increased by 9.1% from SAR 43.4 million in the six months ended 30 June 2018G to SAR 47.4 million in the six months ended 30 June 2019G as a result of higher SIBOR rate during the same period, resulting in higher financing cost.

IFRS 16-related expenses

IFRS 16-related expenses amounted to SAR 333,000 in the six months ended 30 June 2018G and related to amortization of lease obligations charged to other accrued expenses.

Derivative losses/(gains)

Derivative losses/(gains) decreased from losses equivalent to SAR 392,000 in the six months ended 30 June 2018G to gains equivalent to SAR 120,000 in the six months ended 30 June 2019G due to the higher SIBOR rate over the same period.

6.8.5 General and Administrative Expenses

Table (146): General and administrative expenses for the six months ended 30 June 2018G and 2019G

(SAR'000)	For the six-month period ended 30 June 2018G Amended	For the six-month period ended 30 June 2019G Audited	Change for the six-month period of the financial years 2018G-2019G
Salaries and employee-related expenses	24,436	25,347	3.7%
Professional fees	1,436	2,368	64.9%
Directors' fees and expenses	1,516	2,357	55.5%
Information technology expenses	983	1,200	22.1%
Rental	1,488	1,055	(29.1%)
Travel expenses	503	615	22.3%
Communication expenses	390	379	(2.8%)
Maintenance expenses	319	258	(19.1%)
Others	1,694	2,308	36.2%
Total general and administrative expenses	**32,765**	**35,887**	**9.5%**
As % of revenue			Percentage point
Salaries and employee-related expenses	18.9%	18.4%	(0.5)
Professional fees	1.1%	1.7%	0.6
Directors' fees and expenses	1.2%	1.7%	0.5
Information technology expenses	0.8%	0.9%	0.1
Rental	1.1%	0.8%	(0.4)
Travel expenses	0.4%	0.4%	0.0
Communication expenses	0.3%	0.3%	0.0
Maintenance expenses	0.2%	0.2%	0.0
Others	1.3%	1.7%	0.4
Total	**25.3%**	**26.1%**	**0.8**

Source: Financial statements for the six months ended 30 June 2019G, and the Company.

Salaries and employee-related expenses

Salaries and employee-related expenses increased by 3.7% from SAR 24.4 million in the six months ended 30 June 2018G to SAR 25.3 million in the six months ended 30 June 2019G as a result of an increase in the number of employees from 117 to 130 over the same period.

Professional fees

Professional fees increased by 64.9% from SAR 1.4 million in the six months ended 30 June 2018G to SAR 2.4 million in the six months ended 30 June 2019G, mainly driven by increased fees paid for zakat settlement consultations (SAR 1.0 million).

Directors' fees and expenses

Directors' fees and expenses increased by 55.5% from SAR 1.5 million in the six months ended 30 June 2018G to SAR 2.4 million in the six months ended 30 June 2019G due to the reversal of SAR 630,000 in the six months ended 30 June 2018G, in addition to the increase in Directors' fees in the period ended 30 June 2019G.

Information technology expenses

Information technology expenses increased by 22.1% from SAR 983,000 in the six months ended 30 June 2018G to SAR 1.2 million in the six months ended 30 June 2019G as a result of increased software maintenance and cybersecurity support in connection with the Company's Bylaws and the installation of the Temenos basic banking solution system.

Rental expenses

Rental expenses decreased by 29.1% from SAR 1.5 million in the six months ended 30 June 2018G to SAR 1.1 million in the six months ended 30 June 2019G as a result of lower rental of premises, in line with the adoption of the IFRS 16.

Travel expenses

Travel expenses relate to employees' business trips and are paid monthly as part of the employee's salary.

Travel expenses increased slightly by 22.3% from SAR 503,000 in the six months ended 30 June 2018G to SAR 615,000 in the six months ended 30 June 2019G as a result of an increased number of business trips over the same period for the transfer of title deeds related to the Ministry' of Housing's projects, as well as the increased number of customer interviews over the same period.

Part of the travel expenses includes Orix, which is a related party.

Communication expenses

Communication expenses decreased slightly by 2.8% from SAR 390,000 in the six months ended 30 June 2018G to SAR 379,000 in the six months ended 30 June 2019G, and remained stable as a proportion of revenues at 0.3% during the same period.

Maintenance expenses

Maintenance expenses decreased by 19.1% from SAR 319,000 in the six months ended 30 June 2018G to SAR 258,000 in the six months ended 30 June 2019G, and remained stable as a proportion of revenues at 0.2% during the same period.

Other expenses

Other expenses consisted of bank fees (51% of total other expenses in the six months ended 30 June 2019G), public relations (10% of total other expenses in the six months ended 30 June 2019G), entertainment expenses (7% of the total other expenses for the six-month period ended 30 June 2019G) and other expenses.

Other expenses increased by 36.2% from SAR 1.7 million in the six months ended 30 June 2018G to SAR 2.3 million in the six months ended 30 June 2019G as a result of the increase in bank charges (+ SAR 661,000) mainly due to the increased facility fees of the National Commercial Bank.

6.8.6 Selling and Marketing Expenses

Table (147): Selling and marketing expenses for the six months ended 30 June 2018G and 2019G

(SAR'000)	For the six-month period ended 30 June 2018G Audited	For the six-month period ended 30 June 2019G Audited	Change for the six-month period of the financial years 2018G-2019G
Outsourcing costs	1,249	2,720	117.8%
Marketing expenses	1,659	1,692	2.0%
Insurance expenses	687	793	15.4%
Total	**3,595**	**5,205**	**44.8%**
As % of revenue			Percentage point
Outsourcing costs	1.0%	2.0%	1.0
Marketing expenses	1.3%	1.2%	(0.1)
Insurance expenses	0.5%	0.6%	0.1
Total	**2.8%**	**3.8%**	**1.0**

Source: Financial statements for the six months ended 30 June 2019G, and the Company.

Outsourcing costs (recruitment)

Outsourcing costs consist of recruitment of employees for operating the sales activities at the Company's branches in Riyadh (SAR 923,000), Jeddah (SAR 856,000) and Al Khobar (SAR 941,000) in the six months ended 30 June 2019G where the number of employees in branches increased from 36 to 42 during the period.

Outsourcing costs increased by 117.8% from SAR 1.2 million in the six months ended 30 June 2018G to SAR 2.7 million in the six months ended 30 June 2019G as a result of reclassification of the cost of outsourced sales employees from general and administrative expenses to selling and marketing expenses (net amount of SAR 1.3 million).

Marketing expenses

Marketing expenses remained relatively stable at SAR 1.7 million in the six months ended 30 June 2018G and the six-month period ended 30 June 2019G and consisted primarily of digital marketing activities (approximately SAR 665,000) and appointment of an advertising agency, Gray World, at a cost of SAR 272,000 in the six months ended 30 June 2019G.

Insurance expenses

Insurance expenses increased by 15.4% from SAR 687,000 in the six months ended 30 June 2018G to SAR 793,000 in the six months ended 30 June 2019G due to the increase in the number of insured accounts and higher insurance fees.

6.8.7 Net Loss/Profit for the Year

Table (148): Net loss/profit for the period ended 30 June 2018G and 2019G

(SAR'000)	For the six-month period ended 30 June 2018G Amended	For the six-month period ended 30 June 2019G Audited	Change for the six-month period of the financial years 2018G-2019G
Other operating income	226	593	162.4%
Total operating expenses	(37,460)	(40,663)	8.6%
Profit before zakat and income tax	48,068	48,605	1.1%
Net profit for the period	**46,499**	**23,274**	**(49.9%)**

Source: Financial statements for the six months ended 30 June 2019G, and the Company.

Other operating income

Other income

Other income amounted to SAR 593,000 for the six-month period ended 30 June 2019G and consisted of:

a- Change in the fair value of investments at a fair value of SAR 343,000, classified in the interim statement of comprehensive income in the six months ended 30 June 2018G; and

b- Realized profit of SAR 250,000 as a result of the liquidation of the Company's 40% stake in Abdulaziz Al Qassim, Malga III, amounting to SAR 3.1 million.

Total operating expenses

Total operating expenses amounted to SAR 40.7 million for the six months ended 30 June 2019G and mainly consisted of general and administrative expenses (SAR 35.9 million) and selling and marketing expenses (SAR 5.2 million), provision for decrease in credit losses which accounted for provisions for accounts receivable outstanding for more than 90 days and fines of SAR 250 per day of delay as of the 16th day after the due date.

Total operating expenses increased by 8.6% from SAR 37.5 million in the six months ended 30 June 2018G to SAR 40.7 million in the six months ended 30 June 2019G due to increased general and administrative expenses (+ SAR 3.1 million) in line with higher employee compensation and costs and increased selling and marketing expenses (+ SAR 1.6 million) as a result of outsourcing costs as the cost of outsourced sales employees was reclassified from general and administrative expenses to selling and marketing expenses during the same period.

Net profit for the year

Net profit for the year decreased by 49.9% from SAR 46.5 million in the six months ended 30 June 2018G to SAR 23.3 million in the six months ended 30 June 2019G due to the increase in zakat costs, the implementation of the updated system of zakat base calculation for financial companies and the payment of zakat dues for previous years.

6.9 Results of Audited Statement of Financial Position

Table (149): Audited statement of financial position as of 31 December 2018G and 30 June 2019G

(SAR'000)	31 December 2018G Amended	30 Jun 2019G Audited
Assets		
Cash and cash equivalents	15,965	67,480
Murabaha receivables, net	108,256	85,824
Ijara receivables, net	2,902,822	2,933,492
Ijara mawsofa fi athemmah receivables, net	79,662	63,873
Investments	12,484	12,827
Prepaid expenses and other assets	106,984	100,763
Positive fair value of derivatives	1,087	453
Deferred tax assets	516	509
Investments in joint ventures	7,922	5,050
Property and equipment, net	27,838	56,664
Total assets	**3,263,536**	**3,326,935**
Liabilities and shareholders' equity		
Account payables and other accruals	92,086	102,625
Negative fair value derivatives	-	3,197
Zakat and income tax payable	36,790	33,004

(SAR'000)	31 December 2018G Amended	30 Jun 2019G Audited
Borrowings	1,994,132	2,027,064
Employees' end of service benefits	13,618	15,053
Total liabilities	**2,136,626**	**2,180,943**
Shareholders' equity		
Share capital	906,000	906,000
Statutory reserve	61,415	61,415
Fair value reserve	(409)	-
Cash flow hedge reserve	1,087	(2,745)
Retained earnings	158,817	181,322
Total shareholders' equity	**1,126,910**	**1,145,992**
Total liabilities and shareholders' equity	**3,263,536**	**3,326,935**
KPIs		
Return on assets	2.9%	2.2%
Return on equity	8.2%	6.7%

Source: Financial statements for the six months ended 30 June 2019G, and the Company.

6.9.1 Total Assets

Table (150): Assets as of 31 December 2018G and 30 June 2019G

(SAR'000)	31 December 2018G Amended	30 Jun 2019G Audited
Cash and cash equivalents	15,965	67,480
Murabaha receivables, net	108,256	85,824
Ijara receivables, net	2,902,822	2,933,492
Ijara mawsofa fi athemmah receivables, net	79,662	63,873
Investments	12,484	12,827
Prepaid expenses and other assets	106,984	100,763
Positive fair value of derivatives	1,087	453
Deferred tax assets	516	509
Investments in joint ventures	7,922	5,050
Property and equipment, net	27,838	56,664
Total assets	**3,263,536**	**3,326,935**

Source: Financial statements for the six months ended 30 June 2019G, and the Company.

6.9.2 Cash and cash equivalents

Table (151): Cash and cash equivalents as of 31 December 2018G and 30 June 2019G

(SAR'000)	31 December 2018G Management information	30 Jun 2019G Management information
Bank balance	15,940	67,455
Cash on hand	25	25
Total bank balances and cash on hand	**15,965**	**67,480**

Source: Management information.

Cash and cash equivalents were SAR 67.5 million as of the six-month period ended 30 June 2019G and consisted mainly of the Company's bank balances which were comprised of the Company's balances and deposits in local banks during the period, in addition to the cash installments received from customers according to the agreed payment schedule.

The bank balance increased from SAR 15.9 million as of 31 December 2018G to SAR 67.5 million in the six months ended 30 June 2019G as a result to secure a cash balance to repay amounts due in June 2019G.

6.9.3 Murabaha Receivables, Net

Table (152): Net Murabaha receivables as of 31 December 2018G and 30 June 2019G

(SAR'000)	31 December 2018G Amended	30 Jun 2019G Audited
Gross Murabaha receivables	131,985	104,277
Less: Unearned income	(18,519)	(13,992)
Gross Murabaha receivables (net of unearned income)	113,466	90,285
Less: Provision for credit losses	(5,210)	(4,461)
Murabaha receivables, net	**108,256**	**85,824**
Receivables turnover ratio (year)	12	12

Source: Financial statements for the six months ended 30 June 2019G, and the Company.

Table (153): Net Murabaha receivables by business segment as of 31 December 2018G and 30 June 2019G

(SAR'000)	31 December 2018G Management information	30 Jun 2019G Management information
Corporate segment	50,151	40,593
High-net-worth individuals	62,057	48,479
Retail segment	1,257	1,213
Murabaha receivables (net of unearned income)	**113,466**	**90,285**
Less: Provision for credit losses	(5,210)	(4,461)
Murabaha receivables, net	**108,256**	**85,824**

Source: Management information.

Murabaha receivables, net

Net Murabaha receivables decreased from SAR 108.3 million as of 31 December 2018G to SAR 85.8 million as of the six-month period ended 30 June 2019G as a result of the decrease in corporate Murabaha receivables from SAR 50.1 million to SAR 40.6 million, as one loan matured during the period and existing contracts were satisfied. This is in addition to the decline in Murabaha receivables of high-net-worth individuals from SAR 62.1 million to SAR 48.5 million in the same period, as two loans matured during the period and existing contracts were satisfied.

The decline was also attributed to the Management strategy to shift the focus from Murabaha to Ijara contracts to take advantage of the higher SIBOR rate.

The provision for Murabaha contract credit losses decreased from SAR 5.2 million as of 31 December 2018G to SAR 4.5 million as of the six-month period ended 30 June 2019G as shown in the below table, due to the decrease in portfolio size during the same period.

Movement in the provision for Murabaha receivable credit losses was as follows:

Table (154): Movement in the provision for Murabaha receivable credit losses as of 31 December 2018G and 30 June 2019G

(SAR'000)	31 December 2018G Management information	30 Jun 2019G Management information
Balance at beginning of the year	2,773	5,210
Additions	2,437	(749)
Balance at end of the year	**5,210**	**4,461**

Source: Management information.

As of 1 January 2018G, the Company adopted IFRS 9, under which the Company is required to make provision for expected credit losses for all debt securities and other loans and financial assets not retained at fair value through profit or loss along with loan obligations and financial guarantee contracts (if any). This provision is based on the expected credit losses related to any potential default in the next twelve months unless there is a significant increase in credit risk since its inception. If a financial asset meets the definition of purchased or originated impaired credit, the provision shall be based on a change in the expected credit loss to the life of the asset.

The maturity schedule of Murabaha contracts as of 30 June 2019G is as follows:

Table (155): Maturity of Murabaha contracts as of 30 June 2019G

(SAR'000)	Less than one year	One to five years	More than five years	Total
Gross Murabaha receivables	49,099	51,968	3,210	**104,277**
Less: Unearned income	(6,666)	(6,950)	(376)	**(13,992)**
Gross Murabaha receivables (net of unearned income)	**42,433**	**45,018**	**2,834**	**90,285**
Less: Provision for credit losses	-	-	-	**(4,461)**
Murabaha receivables, net	-	-	-	**85,824**

Source: Management information.

6.9.4 Ijara Receivables, Net

Table (156): Net Ijara receivables as of 31 December 2018G and 30 June 2019G

(SAR'000)	31 December 2018G Amended	30 Jun 2019G Audited
Gross Ijara contract receivables	3,948,092	4,063,921
Less: Unearned income	(962,803)	(1,048,804)
Gross Ijara receivables (net of unearned return)	**2,985,289**	**3,015,117**
Less: Impairment allowance for credit losses	(82,467)	(81,625)
Ijara receivables, net	**2,902,822**	**2,933,492**

Source: Financial statements for the six months ended 30 June 2019G, and the Company.

Table (157): Ijara receivables by business segment as of 31 December 2018G and 30 June 2019G

(SAR'000)	31 December 2018G Management information	30 Jun 2019G Management information
Corporate segment	1,378,665	1,218,392
Retail segment	910,769	904,378
High-net-worth individuals	695,855	892,347
Gross Ijara receivables	**2,985,289**	**3,015,117**
Less: Provision for credit losses	(82,467)	(81,625)
Ijara receivables, net	**2,902,822**	**2,933,492**

Source: Management information.

Ijara receivables, net

Net Ijara receivables remained relatively stable at SAR 2.9 billion as of 31 December 2018G and the six-month period ended 30 June 2019G. The increase in contracts of high-net-worth individuals from SAR 695.9 million as of 31 December 2018G to SAR 892.3 million as of the six months ended 30 June 2019G was offset by the decline in corporate contracts from SAR 1.4 billion as of 31 December 2018G to SAR 1.2 billion as of the six months ended 30 June 2019G. This was a result of the decrease in the number of corporate contracts from 99 to 90 during the same period, as 17 loans matured, compared to 8 new contracts. It should be noted that the value of the net portfolio sold to Saudi Real Estate Refinance Company from Ijara receivables at 07/03/2019G amounted to SR 101.6 million.

Movement in the provision for Ijara receivable credit losses was as follows:

Table (158): Movement in the provision for Ijara receivable credit losses as of 31 December 2018G and 30 June 2019G

(SAR'000)	31 December 2018G Amended	30 Jun 2019G Audited
Balance at beginning of period	46,158	82,467
Additions	36,309	(842)
Balance at end of period	**82,467**	**81,625**

Source: Financial statements for the six months ended 30 June 2019G.

The balance of the provision for Ijara receivable credit losses amounted to SAR 81.6 million for the six-month period ended 30 June 2019G.

The provision balance decreased slightly from SAR 82.5 million as of 31 December 2018G to SAR 81.6 million as of the six-month period ended 30 June 2019G due to improved classification of certain customers from Class 3 (higher provision) to Class 2 (lower provision) under the IFRS 9.

Table (159): Maturity of Ijara contracts as of 30 June 2019G

(SAR'000)	Less than one year	One to five years	More than five years	Total
Ijara contracts	1,046,591	2,030,514	986,816	4,063,921
Unearned income	(251,739)	(525,085)	(271,980)	(1,048,804)
Gross Ijara contracts (net of unearned return)	**794,852**	**1,505,429**	**714,836**	**3,015,117**
Provision for credit losses	-	-	-	(81,625)
Ijara contracts, net	**-**	**-**	**-**	**2,933,492**

Source: Financial statements for the six months ended 30 June 2019G.

6.9.5 Ijara Mawsofa Fi Athemmah Receivables, Net

Table (160): Net Ijara mawsofa fi athemmah receivables as of 31 December 2018G and 30 June 2019G

(SAR'000)	31 December 2018G Amended	30 Jun 2019G Audited
Gross Ijara mawsofa fi athemmah contract receivables	131,864	103,871
Less: Unearned income	(51,973)	(39,856)
Gross Ijara mawsofa fi athemmah contracts receivables (net of unearned income)	**79,891**	**64,015**
Less: Impairment allowance for credit losses	(229)	(142)
Ijara mawsofa fi athemmah contracts receivables, net	**79,662**	**63,873**

Source: Financial statements for the six months ended 30 June 2019G.

Net Ijara mawsofa fi athemmah contract receivables decreased from SAR 79.7 million as of 31 December 2018G to SAR 63.9 million for the six-month period ended 30 June 2019G due to the settlement of 23 loans from January and June 2019G, in addition to the regular repayment of outstanding loans. The decline was offset by a partial increase due to new payments of SAR 5.6 million during the same period. It should be noted that the value of the net portfolio sold to Saudi Real Estate Refinance Company from Ijara Mawsofa Fi Athemmah receivables at 07/03/2019G amounted to SR 19.1 million.

Movement in the provision for Ijara mawsofa fi athemmah receivable credit losses was as follows:

Table (161): Movement in the provision for Ijara mawsofa fi athemmah receivable credit losses as of 31 December 2018G and 30 June 2019G

(SAR'000)	31 December 2018G Management information	30 Jun 2019G Management information
Balance at beginning of period	1,267	229
Additions	(1,038)	(87)
Balance at end of period	**229**	**142**

Source: Financial statements for the six months ended 30 June 2019G.

The balance of the provision for Ijara mawsofa fi athemmah receivable credit losses amounted to SAR 142,000 as of the six-month period ended 30 June 2019G.

The provision balance decreased from SAR 229,000 as of 31 December 2018G to SAR 142,000 as of the six-month period ended 30 June 2019G due to improved classification of certain customers from Class 3 (higher provision) to Class 2 (lower provision) under IFRS 9.

Table (162): Maturity of Ijara mawsofa fi athemmah contracts as of 30 June 2019G

(SAR'000)	Less than one year	One to five years	More than five years	Total
Ijara mawsofa fi athemmah contracts	10,297	31,195	62,379	103,871
Unearned income	(4,273)	(12,976)	(22,607)	(39,856)
Gross Ijara mawsofa fi athemmah contracts (net of unearned income)	**6,024**	**18,219**	**39,772**	**64,015**
Impairment allowance for credit losses	-	-	-	(142)
Ijara mawsofa fi athemmah contracts, net	**-**	**-**	**-**	**63,873**

Source: Financial statements for the six months ended 30 June 2019G.

Table (163): Aged accounts as of 31 December 2018G and 30 June 2019G

(SAR'000)	31 December 2018G Management information	30 Jun 2019G Management information
Corporate segment	147,923	98,828
Retail segment	19,520	23,948
High-net-worth individuals	8,165	34,629
Total	**175,608**	**157,405**

Source: Management information.

Aged receivables include Murabaha and Ijara contracts that are more than 90 days past due. The Company applies the customer collection policy by:

1. Reminding the customer 10 days before the maturity date;
2. Reminding the customer on the maturity date; and
3. Reminding the customer 15 days after the maturity date.

The Company will also transfer the request to the Company's Legal Department in case of further delay. In addition, the Company automatically downgrades the credit rating of a customer who fails to pay on time more than once. However, it does not downgrade the credit rating of a customer who fails to pay on time only one time, and just issues a notice of maturity to the customer. The Company offers the option of loan restructuring to customers facing financial constraints. During the period, the restructured contracts reached 7 contracts. Below are the details of the portfolios sold:

Table (164): Contracts in portfolio sold as of 11 May 2018G and 7 March 2019G (date of portfolio sale)

(SAR'000)	11 May 2018G Management information	7 March 2019G Management information
Ijara	110,366	164,329
Ijara mawsofa fi athemmah	39,246	27,709
Total portfolio	**149,612**	**192,038**
Ijara	77,659	101,570
Ijara mawsofa fi athemmah	27,021	19,068
Portfolio, net	**104,680**	**120,638**

Source: Management information.

6.9.6 Available-for-sale Investments and Investments at Fair Value through Other Comprehensive Income

Table (165): Available-for-sale investments and investments at fair value through other comprehensive income as of 31 December 2018G and 30 June 2019G

(SAR'000)	31 December 2018G Management information	30 Jun 2019G Management information
Cost at beginning of year	12,000	12,893
Additions during the year	893	-
Unrealized gains:		
At beginning of year	887	(409)
Remeasurement (loss) gain during the year	(1,296)	343
At end of year	**(409)**	**(66)**
Net available-for-sale investments and investments at fair value through comprehensive and other income	**12,484**	**12,827**

Source: Management information.

Available-for-sale investments and investments at fair value through other comprehensive income amounted to SAR 12.8 million for the six-month period ended 30 June 2019G and consisted of investments with Alistithmar for Financial Securities and Brokerage Company (Alistithmar Capital) related to Saraya Tower Real Estate Development Fund. The Company intends to liquidate this investment in 2020G and recognize any gains and losses under other income/losses.

The net fair value of available-for-sale investments increased slightly from SAR 12.5 million as of 31 December 2018G to SAR 12.8 million as of the six-month period ended 30 June 2019G as a result of gains realized from remeasurement of the Fund during the period (SAR 343,000).

It should be noted that the Company recognized the profits/losses from changes to fair value of investments through other comprehensive income in the six months ended 30 June 2018G under items that will not be reclassified subsequently to profit or loss. However, they are classified under other income in the six-month period ended 30 June 2019G.

Positive/negative fair value of derivatives

The Company held profit rate swaps with a nominal value of SAR 300 million as of 30 June 2019G (compared to SAR 100 million as of 31 December 2018G) to hedge its exposure to financing-related commission rate risk.

Any profits/losses from changes to the fair value of derivatives is recognized under retained earnings as part of other comprehensive income/loss in items that will not be reclassified to profit or loss.

The balance of positive fair value derivatives decreased from SAR 1.1 million as of 31 December 2018G to SAR 453,000 as of the six-month period ended 30 June 2019G as a result of a decrease in positive fair value, compared to that recorded as of 31 December 2018G, with the Saudi Investment Bank (from SAR 589,000 to SAR 234,000) and Alawwal Bank (from SAR 498,000 to SAR 219,000) during the period.

The balance of negative fair value derivatives increased from zero as of 31 December 2018G to SAR 3.2 million as of the six months ended 30 June 2019G as a result of an increase in negative fair value with NCB by SAR 3.2 million as of the six-month period ended 30 June 2019G.

6.9.7 Prepaid Expenses and Other Assets

Table (166): Movement in prepaid expenses and other assets as of 31 December 2018G and 30 June 2019G

(SAR'000)	31 December 2018G Management information	30 Jun 2019G Management information
Other real estate assets	84,951	80,970
Receivable from joint ventures	4,784	2,804
Accrued profit on derivatives	965	965
Prepaid rent	3,619	200
Value added tax receivable	4,613	9,412
Others	8,053	6,412
Total	**106,985**	**100,763**

Source: Management information.

Other real estate assets

Other real estate assets amounted to SAR 81.0 million as of the six-month period ended 30 June 2019G and consisted of villas purchased from Tharaa Real Estate Investment Project at an amount of SAR 57.7 million and Dar Wa Emar at an amount of SAR 23.3 million.

Other real estate assets decreased from SAR 85.0 million as of 31 December 2018G to SAR 81.0 million in the six-month period ended 30 June 2019G due to the collection of SAR 4.5 million from Dar Wa Emar during the period.

Receivable from joint ventures

Receivable from joint ventures decreased from SAR 4.8 million as of 31 December 2018G to SAR 2.8 million in the six months ended 30 June 2019G as a result of collection of receivables during the same period.

Accrued profit on derivatives

Accrued profit on derivatives remained stable at SAR 965,000 as of 31 December 2018G and the six-month period ended 30 June 2019G.

Prepaid rent

The prepaid rent balance decreased from SAR 3.6 million as of 31 December 2018G to SAR 200,000 in the six months ended 30 June 2019G, as the Company applied IFRS 16 "Leases". As a result, a lease obligation of SAR 3.3 million was recognized under payable expenses and other liabilities.

Value added tax receivable

The value added tax receivable balance amounted to SAR 9.4 million in the six months ended 30 June 2019G and related to the value added tax receivable of the Ministry of Housing, which was applied as of 1 January 2018G. The State incurs the VAT on citizen's first homes (retail customers), when citizens purchase a residential house for the first time (at a maximum amount of SAR 850,000). Whereas the Company purchases the asset (residential house) on behalf of its customers, the Company pays the tax to GAZT and then requests a refund from the Ministry of Housing.

Others

Other prepaid expenses decreased from SAR 8.1 million as of 31 December 2018G to SAR 6.4 million as of the six months ended 30 June 2019G as a result of the decrease in employees' prepaid medical insurance from SAR 1.6 million as of 31 December 2018G to 579,000 as of 30 June 2019G. The decrease was due to timing differences in the payment of employees' prepaid insurance expenses as per insurance contracts. Prepaid bank facility fees decreased from SAR 1.3 million as of 31 December 2018G to SAR 370,000 as of 30 June 2019G.

Deferred tax assets

Deferred tax assets relate to deductible temporary differences arising from the impairment allowance for expected credit losses, expenses of property and equipment depreciation and provision for end of service benefits. Deferred tax assets amounted to SAR 509,000 as of 30 June 2019G.

Investments in joint ventures

Investments in joint ventures mainly account for the Company's 90% stake in Dar Wa Emar (SAR 5.1 million as of 30 June 2019G), in connection with the construction of premises in Rahba, Al Khobar.

Investments in joint ventures decreased from SAR 7.9 million as of 31 December 2018G to SAR 5.1 million in the six months ended 30 June 2019G as a result of the 40% liquidation of the Company's stake in Abdulaziz Al Qassim, Malga III, in the six months ended 30 June 2019G, which amounted to SAR 2.9 million.

Table (167): Investments in joint ventures as of 31 December 2018G

Project name (SAR '000)	Location	% of shareholding	Opening balance	Additions	Share in net income	Withdrawals	Closing balance
Dar Wa Emar, Rahba	Rahba, Al Khobar	90%	9,280	-	(240)	(3,990)	5,050
AbdulAziz Al Qassim, Malga III	Malga, Riyadh	40%	9,032	1,235	-	(7,395)	2,872
Dar Wa Emar, Olaya	Al Olaya, Al Khobar	50%	11,218	-	-	(11,218)	-
Total			**29,530**	**1,235**	**(240)**	**(22,603)**	**7,922**

Source: Financial statements for the six months ended 30 June 2019G.

Table (168): Investments in joint ventures as of 30 June 2019G

Project name (SAR '000)	Location	% of sharehold-ing	Opening bal-ance	Additions	Share in net income	Withdrawals	Closing balance
Dar Wa Emar, Rahba	Rahba, Al Khobar	90%	5,050	-	-	-	5,050
AbdulAziz Al Qassim, Malga III	Malga, Riyadh	40%	2,872	-	250	(3,122)	-
Total			**7,922**	**-**	**250**	**(3,122)**	**5,050**

Source: Financial statements for the six months ended 30 June 2019G .

6.9.8 Property and Equipment

Table (169): Property and equipment as of 31 December 2018G and 30 June 2019G

(SAR'000)	31 December 2018G Management information	30 Jun 2019G Management information
Land	13,650	13,650
Work in progress	10,018	14,246
Information technology equipment	2,831	3,168
Leasehold improvements	1,148	961
Furniture and fixtures	10	118
Office equipment	181	164

(SAR'000)	31 December 2018G Management information	30 Jun 2019G Management information
Right to use assets (IFRS16)	-	24,358
Total net book value	**27,838**	**56,664**

Source: the company.

Property and equipment amounted to SAR 56.7 million as of the six months ended 30 June 2019G and consisted mainly of the right to use assets in respect of the Company's leases (SAR 24.4 million), land (SAR 13.7 million), work in progress (SAR 14.2 million) and information technology equipment (SAR 3.2 million), which together amounted of SAR 55.5 million which accounted for 97.9% of the total net book value of property and equipment.

Property and equipment increased from SAR 27.8 million as of 31 December 2018G to SAR 56.7 million as of the six months ended 30 June 2019G due to an amendment resulting from the adoption of IFRS 16 "Leases", amounting to SAR 24.4 million as of the six-month period ended 30 June 2019G.

Land

Land and equipment amounted to SAR 13.7 million as of the six months ended 30 June 2019G and related to the land owned by the Company. Land remained stable at SAR 13.7 million as of 31 December 2018G and the six-month period ended 30 June 2019G.

Work in progress

Work in progress increased from SAR 10.0 million as of 31 December 2018G to SAR 14.2 million in the six months ended 30 June 2019G and mainly related to the Company's new head office, accounting for SAR 2.2 million as the executing contractor's balance.

Information technology equipment

Information technology equipment amounted to SAR 3.2 million as of the six-month period ended 30 June 2019G and related to information systems hardware and software.

Information technology equipment increased from SAR 2.8 million as of 31 December 2018G to SAR 3.2 million as of the six months ended 30 June 2019G due to additions related to the application of the Temenos T24 system.

Leasehold improvements

Leasehold improvements amounted to SAR 961,000 as of the six months ended 30 June 2019G (SAR 1.1 million as of 31 December 2018G).

Furniture and fixtures

Furniture and fixtures amounted to SAR 118,000 in the six months ended 30 June 2019G (SAR 10,000 as of 31 December 2018G).

Office equipment

Office equipment, related to filing boxes and safes, amounted to SAR 164,000 in the six months ended 30 June 2019G (SAR 181,000 as of 31 December 2018G).

Right to use assets

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

Upon initial recognition at the commencement date, the Company makes an assessment to determine whether the contract is a lease or involves a lease. A contract is a lease or involves a lease if the contract includes the right to control the use of a specific asset for a period for a specified amount. Control exists if most of the benefits flow to the Company and the Company can direct the use of these assets.

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

In general, the right to use the assets will be equal to the lease obligation. However, if there are additional costs, such as site preparation, non-refundable insurance, execution funds, other transaction-related expenses, etc., they should be added to the value of the right to use assets.

Lease liability

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

Effective on 1 January 2019G, the Company has adopted IFRS 16 - Leases. The accounting policy for the new standard is disclosed in the condensed interim financial statements.

IFRS 16 "Leases" replaces the guidance on leases, which was included in IAS 17 "Leases", IFRIC 4 "Determining whether an arrangement contains a lease", SIC 15 "Operating leases - Incentives" and SIC 27 "Evaluating the substance of transactions in the legal form of a lease".

The Company has opted for the modified retroactive application permitted by IFRS 16 upon adoption of the new standard. During the first-time application of IFRS 16 to operating leases, the right to use the leased assets was measured at the amount of lease liability, using the lessee's incremental borrowing rate at the time of first adoption. The right to use assets amounted to SAR 24.4 million as of the six months ended 30 June 2019G.

6.9.9 Total Liabilities

Table (170): Total liabilities as of 31 December 2018G and 30 June 2019G

(SAR'000)	31 December 2018G Amended	30 Jun 2019G Audited
Account payables and other accruals	92,086	102,625
Negative fair value derivatives	-	3,197
Zakat and income tax payable	36,790	33,004
Borrowings	1,994,132	2,027,064
Employees' end of service benefits	13,618	15,053
Total liabilities	**2,136,626**	**2,180,943**

Source: Financial statements for the six months ended 30 June 2019G.

Negative fair value derivatives

The negative fair value balance of derivatives increased from SAR 0 as of 31 December 2018G to SAR 3.2 million as of the six months ended 30 June 2019G as a result of an increase in negative fair value with NCB by SAR 3.2 million as of the six months ended 30 June 2019G.

6.9.10 Account payables and other accruals

Table (171): Accounts payable and accruals as of 31 December 2018G and 30 June 2019G

(SAR'000)	31 December 2018G Amended	30 Jun 2019G Audited
Financing to customers	21,163	26,759
Employee related expenses and salaries	10,205	10,581
Amount received from Murabaha and Ijara customers	8,857	2,893
Accrued expenses	6,330	6,140
Payable to the Ministry of Housing	26,278	30,849
Lease liabilities	-	21,227
Others	19,253	4,176
Total	**92,086**	**102,625**

Source: Financial statements for the six months ended 30 June 2019G.

Financing to customers

Financing to customers increased from SAR 21.2 million as of 31 December 2018G to SAR 26.8 million in the six months ended 30 June 2019G due to the timing difference between the registration of the financing contract and the issuance of checks (checks are issued after the registration of financing).

Employee related expenses and salaries

Employee related expenses and salaries relate mainly to employee incentives and remuneration (SAR 5.7 million) and Directors' expenses and remuneration (SAR 3.6 million) as of the six months ended 30 June 2019G.

Employee related expenses and salaries increased from SAR 10.2 million as of 31 December 2018G to SAR 10.6 million in the six months ended 30 June 2019G as a result of the increase in Directors' expenses and remuneration from SAR 1.3 million as of 31 December 2018G to SAR 3.6 million as of the six-month period ended 30 June 2019G. This was offset by a decrease in employee incentives and remuneration from SAR 7.3 million to SAR 5.7 million during the same period.

Amount received from Murabaha and Ijara customers

The amount received from Murabaha and Ijara customers decreased from SAR 8.9 million as of 31 December 2018G to SAR 2.9 million in the six months ended 30 June 2019G due to a decrease in amounts received from customers before the due date.

Accrued expenses

Accrued expenses mainly relate to invoices received, including those for administrative and financial services and information systems.

Accrued expenses decreased from SAR 6.3 million as of 31 December 2018G to SAR 6.1 million in the six-month period ended 30 June 2019G due to settlement of SAR 619,000 to creditors.

Payable to the Ministry of Housing

The amount payable to the Ministry of Housing relates to loans provided to customers to finance properties subsided by the Ministry of Housing.

The amount payable to the Ministry of Housing increased from SAR 26.3 million as of 31 December 2018G to SAR 30.8 million as of the six-month period ended 30 June 2019G as a result of the increase in the number of loans provided to customers.

Lease liabilities

Lease liabilities amounted SAR 21.2 million as of the six months ended 30 June 2019G due to adoption of IFRS 16 where no lease obligations were recorded in the six months ended 30 June 2018G.

Others

Other payables decreased from SAR 19.3 million as at 31 December 2018G to SAR 4.2 million in the six months ended 30 June 2019G as a result of the financial reconciliations resulting from the timing difference in recording payments in the Company's records and with the bank's records.

6.9.11 Zakat and income tax payable

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

During the six-month period ended 30 June 2019G, there was no change in the zakat and income tax status of the Company as disclosed in the annual financial statements for the year ended 31 December 2018G. Zakat and income tax payable amounted to SAR 33.0 million as of the six-month period ended 30 June 2019G.

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

Table (172): The settlement amount of the General Authority of Zakat and Tax for the years from 2007G – 2018G

(SAR'000)	2019G	2020G	2021G	2022G	2023G	Total
Total settlement from 2007G to 2012G	12,622					12,622
Total settlement from 2007G to 2012G	21,634	5,389	5,389	5,389	5,389	43,190
Total settlement amount	34,256	5,389	5,389	5,389	5,389	55,812
Amount paid	28,868					28,868
Total unpaid amount	**5,389**	**5,389**	**5,389**	**5,389**	**5,389**	**26,945**

6.9.12 Borrowings

Table (173): Bank borrowings as of 31 December 2018G and 30 June 2019G

(SAR'000)	31 December 2018G Amended	30 Jun 2019G Audited
Current portion of bank borrowings	809,736	794,155
Non-current portion of bank borrowings	1,184,396	1,232,909
Total bank borrowings	**1,994,132**	**2,027,064**

Source: Financial statements for the six months ended 30 June 2019G.

Table (174): Bank borrowings for each bank as of 30 June 2019G

(SAR'000)	31 December 2018G Management information	30 Jun 2019G Management information
The Saudi Investment Bank	442,478	576,477
SABB	153,129	137,477
Alawwal Bank	364,925	249,179
GIB	226,330	153,546

(SAR'000)	31 December 2018G Management information	30 Jun 2019G Management information
Al Rajhi Bank	88,590	159,780
Bank Albilad	15,642	-
Samba Financial Group	442,351	375,815
Bank AlJazira	260,687	244,255
NCB	-	130,535
Total	**1,994,132**	**2,027,064**

Source: Management information.

Table (175): Details of the Company's borrowings as of 30 June 2019G

Bank	Balance used (SAR '000)	Accumulated earnings	Total	Type	Key guarantees and obligations
The Saudi Investment Bank	574,362	2,115	576,477	Long-term investment financing	1- The leverage ratio should not exceed 1:3 2- Minimum capital adequacy ratio for risk assets is 8% 3- Minimum capital adequacy ratio for Class I risk assets is 4% 4- Refrain from buying or redeeming any issued shares, reducing its capital or selling or distributing assets 5- A general waiver to the Bank of customer receivables acceptable to the Bank covering 125% of the total amount outstanding under the facilities.
SABB	136,500	977	137,477	Credit facility	1- The total debt to tangible net worth ratio must not exceed 3:1
Alawwal Bank	247,875	1,304	249,179	Credit facility	1- Net debt/receivables (short + long-term) must not exceed 80% throughout the valid term of the facilities 2- The leverage ratio (total liabilities of tangible net worth) should not be greater than 3 times throughout the valid term of the facilities. 3- The customer undertakes that the current assets to the current liabilities ratio shall not be greater than one time throughout the valid term of the facilities.
GIB	152,333	1,213	153,546	Uncommitted credit facility	1- The customer shall maintain the coverage ratio of the contracts waived to the bank in respect of the amounts due under the financing with a minimum of 120%. 2- The customer shall make quarterly payments irrespective of quarterly collection amounts 3- If the ratio falls below 120%, the customer should increase the amount of the contacts waived to the bank or make early payment of part of the outstanding financing. 4- The period of outstanding amounts shall not exceed 90 days after the actual maturity date

Bank	Balance used (SAR '000)	Accumulated earnings	Total	Type	Key guarantees and obligations
Al Rajhi Bank	159,143	637	159,780	Credit facility	1- The ratio of total loans to tangible equity shall not be greater than 5 times. 2- The interest coverage ratio should not be less than 2 times 3- The percentage of ownership change should not exceed 5% of the ownership
Samba Financial Group	374,041	1,773	375,814	Mortgage	1- The Company will not sell, transfer, lease, assign, deal with or dispose of all or any part of its business or assets (or agree to any of the foregoing) either through a single transaction or a series of transactions, whether or not they related to each other, except for sale of receivables arising from residential mortgage contracts in the ordinary course of business. 2- The Company shall not establish or acquire any subsidiary, invest in any other entity, or provide financing to any other person, except for the first item, through commercial credit in the ordinary course of business. 3- The Company will not materially change the nature of its business. 4- The Company will not take any credit facilities from any other bank or financial institution for dividend distribution only.
Bank AlJazira	243,200	1,055	244,255	Credit facility	1- The total amount utilized within the limits shall not exceed SAR 330 million at any time.
NCB	129,500	1,035	130,535	Credit facility (Murabaha)	1- The total amount utilized within the limits shall not exceed SAR 380 million at any time. 2- The customer shall maintain the coverage ratio of the contracts waived to the bank in respect of the amounts due under the financing with a minimum of 130%.
Total	**2,016,955**	**10,109**	**2,027,064**		

Source: Management information.

The Company's bank borrowings amounted to SAR 2.0 billion as of the six-month period ended 30 June 2019G and related to Sharia-compliant medium term Murabaha financing borrowings (from 3 to 5 years). Profit rates associated with borrowings are based on SIBOR+ according to negotiations with banks. The borrowings shall be repaid on a quarterly basis in accordance with the agreements with banks.

The major participant of the Company's bank borrowings is The Saudi Investment Bank, which is also a related party and a Major Shareholder at the Company. The Company's relationship with The Saudi Investment Bank is a commercial one determined by the market, as it does not offer any preferential rates to Amlak compared to other banks.

The Company used 67.6% of the facilities available from The Saudi Investment Bank as of the six-month period ended 30 June 2019G.

The Company used 78.0% of the facilities available from the Saudi British Bank (SABB) as of the six-month period ended 30 June 2019G.

The Company used 55.1% of the facilities available from Alawwal Bank as of the six-month period ended 30 June 2019G.

The Company used 36.6% of the facilities available from GIB as of the six-month period ended 30 June 2019G.

The Company used 63.7% of the facilities available from Al Rajhi Bank as of the six-month period ended 30 June 2019G.

The Company used 81.1% of the facilities available from Bank AlJazira as of the six-month period ended 30 June 2019G.

The Company used 78.7% of the facilities available from Samba Financial Group as of the six-month period ended 30 June 2019G.

The Company used 34.1% of the facilities available from NCB as of the six-month period ended 30 June 2019G.

The Company did not use any of the facilities of Bank Albilad as of the six-month ended 30 June 2019G.

6.9.13 Employee Benefits

Table (176): Movement in the present value of defined benefit liabilities at the beginning of the year as of 31 December 2018G and 30 June 2019G

(SAR'000)	31 December 2018G Management information	30 Jun 2019G Management information
Present value of defined benefit liabilities at beginning of year	12,909	13,618
Provision recognized in the statement of profit or loss:	2,495	1,456
Current service cost	2,082	1,127
Finance cost	413	329
Immediate recognition of previous service cost	-	-
Actuarial gain (loss) on defined benefit plan recognized in the statement of other comprehensive income	929	360
Benefits paid	(2,715)	(381)
Present value of defined benefit liabilities at end of year	**13,618**	**15,053**

Source: Management information.

The present value of defined employee benefit liabilities increased from SAR 13.6 million as of 31 December 2018G to SAR 15.1 million in the six months ended 30 June 2019G due to the increase in the number of employees (+13) from 117 to 130 for the same period and the annual pay increases over the same period.

6.10 Shareholders' Equity

Table (177): Audited shareholders' equity as of 31 December 2018G and 30 June 2019G

(SAR'000)	31 December 2018G Amended	30 Jun 2019G Audited
Share capital	906,000	906,000
Statutory reserve	61,415	61,415
Fair value reserve	(409)	-
Cash flow hedge reserve	1,087	(2,745)
Retained earnings	158,817	181,322
Total shareholders' equity	**1,126,910**	**1,145,992**

Source: Financial statements for the six months ended 30 June 2019G.

Shareholders' equity consisted of share capital (fully paid SAR 906.0 million as of the six-month period ended 30 June 2019G) and retained earnings (SAR 181.3 million as of the six-month period ended 30 June 2019G).

Retained earnings increased from SAR 158.8 million as of 31 December 2018G to SAR 181.3 million as of the six months ended 30 June 2019G driven by net profit for the year (+SAR 23.3 million). The Company also did not declare and distribute any profits during the period ended 30 June 2019G.

6.11 Audited Statement of Cash Flow

Table (178): Audited statement of cash flow for the years ended 31 December 2018G and 30 June 2019G

(SAR'000)	For the six-month period ended 30 June 2018G Amended	For the six-month period ended 30 June 2019G Audited
Cash flows from operating activities:		
Net profit for the period before zakat and income tax expenses	48,068	48,605
Non-cash adjustment to reconcile profit for the period before zakat and income tax to net cash from operating activities		
Depreciation	1,100	1,249
Borrowing costs	43,419	47,362
Employees' end of service benefits	1,248	1,456
Impairment allowance for credit losses	-	(1,678)
Other revenues	-	(593)
	93,835	**96,401**
(Increase)/decrease in operating assets		
Murabaha receivables	54,087	23,181
Ijara receivables	87,258	(29,828)
Ijara mawsofa fi athemmah receivables	35,083	15,876
Prepaid expenses and other assets	(64)	3,201
Increase/(decrease) in operating liabilities		
Accrued expenses and other liabilities	1,535	(10,688)
Cash generated from operating activities	**271,734**	**98,143**
Borrowing cost paid during the period	(40,869)	(46,612)
Employee benefits paid during the period	(2,496)	(381)
Zakat and income tax paid	(3,331)	(29,470)
Net cash from operating activities	**225,038**	**21,680**
Cash flows from investment activities		
Purchase of property and equipment	(1,666)	(5,682)
Proceeds from investments in joint ventures	12,580	3,122
Investments in joint ventures	(1,235)	-
Net cash from/(used in) investment activities	**9,679**	**(2,560)**
Cash flows from financing activities		
Repayment against borrowings	(569,694)	(475,605)
Proceeds from borrowings	433,562	508,000
Dividends paid	(66,810)	-
Net cash (used in)/from financing activities	**(202,942)**	**32,395**
Net increase in cash and cash equivalents	**31,775**	**51,515**
Cash and cash equivalents at beginning of period	29,634	15,965

(SAR'000)	For the six-month period ended 30 June 2018G Amended	For the six-month period ended 30 June 2019G Audited
Cash and cash equivalents at end of period	**61,409**	**67,480**
Non cash activities		
Net changes in fair value of cash flow hedge	874	(3,832)
Change in fair value of investments at FVOCI	(1,680)	-
Right-of-use-asset	-	24,358
Lease liability	-	21,227

Source: Financial statements for the six months ended 30 June 2019G.

Cash flows from operating activities

Cash flows from operating activities decreased from SAR 225.0 million as of the six months ended 30 June 2018G to SAR 21.7 million as of the six months ended 30 June 2019G due to lower cash flows from Murabaha receivables (SAR 30.9 million), Ijara receivables (SAR -117.1 million) and Ijara mawsofa fi athemmah receivables (SAR - 19.2 million) during the same period.

Cash flows from investment activities

Cash flows from investment activities decreased from SAR 9.7 million as of the six months ended 30 June 2018G to a deficit of - SAR 2.6 million as of the six months ended 30 June 2019G due to a decrease in proceeds from investments in joint ventures during the period from SAR 12.6 million to SAR 3.1 million and an increase in the purchase of property and equipment from SAR 1.7 million to SAR 5.7 million during the same period.

Cash flows from financing activities

Cash flows from financing activities increased from a deficit of - SAR 202.9 million as of the six-month period ended 30 June 2018G to SAR 32.4 million as of the six-month period ended 30 June 2019G as a result of higher proceeds from borrowings against settled installments of bank borrowings.

6.12 Commitments and Contingencies

The Company has facilities approved but not utilized, indicative offers issued which are under customer consideration and due diligence in progress as of the reporting date and which might be converted into financing amounting to SAR 263.3 million as of the six months ended 30 June 2019G (31 December 2018G: SAR 96 million).

6.13 Directors' Declaration on the Financial Statements

The Directors declare that the financial information presented in this section is extracted without material change from and in a form consistent with the financial statements. The Directors also declare that the Company's audited financial statements for the years ended 31 December 2016G, 2017G, 2018G and as of the six months ended 30 June 2019G were prepared based on the International Accounting Standards as adopted by SOCPA.

The Company's Directors declare that the Company has working capital sufficient for a period of at least twelve months immediately following the date of publication of the Prospectus.

The Directors declare that the Company has no intention of making any fundamental change in the nature of its activity.

The Directors declare that there has been no material adverse change in the Company's financial or business position in the three financial years directly preceding the date of application for listing and offer of securities that are the subject of this Prospectus until the date of the approval of this Prospectus.

The Directors confirm that the Company's operations have not been discontinued in such a way as to negatively affect or have affected its financial position during the past twelve months.

The Directors confirm that all material facts regarding the Company and its financial performance have been disclosed in this Prospectus, and that there are no other facts the omission of which would make any statement herein misleading.

The Directors confirm that the Company does not have any properties, including contractual securities or other assets the value whereof is subject to fluctuations or is difficult to ascertain, which significantly affects the evaluation of the financial situation.

The Directors confirm that the Company and its Subsidiary did not provide any commissions, discounts, brokerages or other non-cash compensation in connection with the issuance or offering of any securities within the three years immediately preceding the date the application for admission and offering of the securities subject to this Prospectus was submitted.

The Directors confirm that the capital of the Company and the capital of its Subsidiary is not under option.

The Directors declare that the Company does not hold any debt instruments issued, outstanding or authorized, or otherwise created but unissued, term loans or mortgages secured or unsecured, except for as disclosed in Section (12.5.7) "**Company Financing Agreements and Related Hedging Agreements**" of this Prospectus.

The Directors declare that the Company does not hold any other borrowing or indebtedness, including bank overdrafts, liabilities under acceptances, acceptance credits, hire purchase commitments, mortgages secured or unsecured, except for as disclosed in Sections (6) "**Management's Discussion and Analysis of the Company's Financial Position**" and (12.5.7) "**Company Financing Agreements and Related Hedging Agreements**" of this Prospectus.

The Directors declare that there are no significant fixed assets to be purchased or leased, except for those disclosed in Section (6) "**Management's Discussion and Analysis of the Company's Financial Position**".

6.14 Calculation of Financial Indicators

- Return on Assets = Net Income ÷ Total Assets
- Return on Equity = Net Income ÷ Total Equity
- Earnings per share before zakat = Net income before zakat ÷ Number of shares
- Earnings per share after zakat = Net income after zakat ÷ Number of shares
  - In 2016G, 2017G and 2018G, this was calculated using the adjusted net income (in these years zakat was deducted directly from the total equity and was not recognized in the statement of income as disclosed in the Prospectus)
- **Total loans/total shareholders' equity =** Total Loans ÷ Total Equity
- **Adjusted net income (2016G, 2017G and 2018G) = Net** income - zakat cost for the period
  - In 2016G, 2017G and 2018G, net income has been adjusted by deducting zakat from the income statement (given the audited financial statements of the Company have been prepared in accordance with SAMA's instructions, pursuant to which the amount of zakat for the period is deducted from total equity in the statement of financial position).
- Average Financing Cost of the Company (%): Bank Financing Cost During the Period ÷
  $$\frac{\text{Amount of Bank Loans at the End of Period + Amount of Bank Loans at the Beginning of Period}}{2}$$
- Average Return on Financing Contracts (%) = Cash Inflow from Financing Activities ÷
  $$\frac{\text{(Amount of Finance Contract Receivables at the End of Period+Amount of Finance Contract Receivables at the Beginning of Period)}}{2}$$
- Average Financing Margin (%): = Average Income Rate of the Finance Portfolio - Average Financing Cost of the Company

7. Dividend Distribution Policy

Pursuant to Article 110 of the Companies Law, each Shareholder is entitled to the rights attached to the Shares, including, in particular, the right to receive a portion of the net dividends declared. The Board of Directors shall make a recommendation on the declaration of any dividends prior to approval by the shareholders in a meeting of the General Assembly. However, there are no guarantees of actual dividends. Furthermore, there is no guarantee with regard to the amounts that will be paid in any year. Any dividends declared will depend on, amongst other things, the Company's historic and anticipated earnings and cash flow, financing and capital requirements, market and general economic conditions, the Company's Zakat position as well as legal and regulatory considerations. In addition, dividend distribution is subject to the restrictions set out in the Implementing Regulations of the Law on Supervision of Finance Companies, under which a letter of no objection must be obtained from SAMA approving the distribution of dividends before any dividends or other distributions are approved, recommended or announced, subject to the following conditions:

- Distribution shall not lead to a decrease in the level of capital adequacy and liquidity below the prescribed levels, subject to SAMA estimates.
- The total distributions in the financial year shall not exceed the profits realized during the previous financial year.
- Any other conditions that may be specified by SAMA.

After deducting all expenses, the Company's profits shall be allocated as follows:

1. Ten percent (10%) of the net profit shall be set aside to form a statutory reserve. Such allocations to the statutory reserve may be discontinued, under a resolution of the Ordinary General Assembly when the statutory reserve amounts to thirty (30%) of the Company's share capital.
2. The Ordinary General Assembly may, at the request of the Board of Directors, withhold a certain percentage of the annual net profits to form a contractual reserve or additional contractual reserves to be allocated for a specific purpose(s), determined by the Ordinary General Assembly. Contractual reserve and additional contractual reserves may only be used pursuant to a resolution adopted by the Ordinary General Assembly. If such reserve is not earmarked for a specific purpose, the Ordinary General Assembly may, at the recommendation of the Board of Directors, resolve to spend it in any way beneficial to the Company or the Shareholders.
3. The balance shall be distributed among the Shareholders as a share in the profits or transferred to the retained earnings account.
4. By a resolution of the Board of Directors, interim dividends may be distributed to the Shareholders. Such dividends shall be deducted from the annual profits specified in Clause 3 above, in accordance with the applicable rules and regulations issued by the competent authorities.

The table below summarizes the dividends declared and distributed by the Company since the start of 2016G:

Table (179): Dividends declared and paid in 2016G, 2017G, 2018G, and 2019G

(SAR '000)	2016G	2017G	2018G	2019G
Declared dividends for the year	67,500	67,500	67,725	67,950
Paid distributions during the year	67,500	67,500	67,725	67,950
Distribution during the period	Distributed for the year 2015G	Distributed for the year 2016G	Distributed for the year 2017G	Distributed for the year 2018G
Net income for the period of distribution	105,861	109,040	103,254	97,613
Percentage of dividends declared to net income for the period of distribution	%63.8	%61.9	%65.5	%69.6

Source: Audited financial statements for the years ended 31 December 2016G, 2017G and 2018G, and Company information.

Offer Shares are not entitled to any dividends announced prior to the date of this Prospectus. Offer Shares shall be entitled to dividends announced by the Company from the date of this Prospectus and the subsequent financial years. As of the date of this Prospectus, the Directors declare that there are no declared or outstanding dividends for the said periods except as set out above.

8. Use of Proceeds

The total proceeds from the Offering are estimated at SAR (434,880,000), of which approximately SAR 15,000,000 will be used to settle all expenses related to the Offering, which include the fees of the Financial Advisor, Lead Manager, Underwriter, Legal Advisor, Accountants, Receiving Entities, and Market Consultant, as well as other fees related to the Offering.

The Net Offering Proceeds of approximately SAR (419,880,000) will be distributed to the Selling Shareholders pro-rata to the number of Offer Shares that will be sold by each of them in the Offering. The Company will not receive any part of the proceeds from the Offering. Selling Shareholders will bear all fees, expenses and costs related to the Offering.

9. Capitalization and Indebtedness

Prior to the Offering, the Current Shareholders owned all of the issued share capital of the Company. Following the completion of the Offering, the Current Shareholders will own 70% of the share capital of the Company.

The table below sets out the capitalization of the Company as derived from the Company's audited financial statements for the financial year ended 31 December 2016G, 2017G and 2018G and the six-month ended 30 June 2019G, and should be read and interpreted in conjunction with the related financial statements shown in Section (18) "Financial Statements and Auditor's Report".

Table (180): Capitalization and indebtedness of the Company

(SAR '000)	2016G	2017G	2018G	30 June 2019G
Bank financing	2,102,270	2,072,175	1,994,132	2,027,064
Share capital	900,000	903,000	906,000	906,000
Statutory reserve	41,329	51,654	61,415	61,415
AFS reserve	-1,012	887	-	-
Fair value reserve	-	-	(409)	-
Cash flow hedge reserve	1,836	380	1,087	(2,745)
Retained earnings	191,119	213,375	158,301	181,322
Total shareholders' equity	**1,133,272**	**1,169,296**	**1,126,394**	**1,145,992**
Total capitalization (total financing + total shareholders' equity)	**3,235,542**	**3,241,471**	**3,120,526**	**3,173,056**
Total financing/total capitalization	**64.97%**	**63.93%**	**63.90%**	**63.88%**

Source: Audited financial statements for the financial years ended 31 December 2016G, 2017G and 2018G and 30 June 2019G.

The Directors declare that:

a- None of the Company's shares are under option.

b- Neither the Company nor any subsidiary has any debt instruments as of the date of this Prospectus.

c- The Company's balance and cash flows are sufficient to meet its expected cash and working capital requirements for at least twelve (12) months after the date of this Prospectus.

10. Expert Statements

All of the Advisors, whose names are listed starting on pages (vi) and (vii), have given and, as of the date of this Prospectus, not withdrawn, their written consent to the publication of the names, addresses, logos and statements attributed to each of them in this Prospectus, and do not, themselves, nor their employees that form part of the team serving the Company, or any of their relatives, have any shareholding or interest of any kind in the Company or its Subsidiary as of the date of this Prospectus which would impair their independence.

11. Declarations

As of the date of this Prospectus, the Directors declare the following:

- None of the Directors, Senior Executives or the Secretary has ever been declared bankrupt or subject to bankruptcy proceedings.
- None of the companies by which any of the Company's Directors, Senior Executives or the Secretary were employed in an administrative or supervisory position were declared bankrupt or insolvent within the preceding years.
- Except as described in Section (12.5.10) "**Agreements with Related Parties**", none of the Directors, Senior Executives, the Secretary or any of their relatives or affiliates have any interest in any existing written or oral contract, arrangement or agreement or arrangement under consideration or to be concluded with the Company and its Subsidiary until the date of this Prospectus.
- Except as disclosed in Section 5.7 "Composition of the Board of Directors" and Section 12.5.10 "**Agreements with Related Parties**", none of the Directors, Senior Executives, the Secretary, or any of their relatives have any shares or interests of any kind in the Company, its Subsidiary, or in the Company's or its Subsidiary's debt instruments. Moreover, neither the Company nor its Subsidiary are permitted to provide a cash loan of any kind to the Directors or guarantee any loan obtained by one of them.
- The Company has fulfilled all the conditions specified for registration, offering, listing and all other related requirements stipulated in the Capital Market Law and the Rules on the Offer of Securities and Continuing Obligations.
- The Board of Directors has included all the information that must be included in this Prospectus pursuant to the Rules on the Offer of Securities and Continuing Obligations.
- This Prospectus contains statements prepared by experts. The Company asserts that these experts have given their written consent to the use of their names and the publication of their logos and statements in the Prospectus as written and provided in the Prospectus and they have not withdrawn such consent until the date of this Prospectus.
- No commissions, discounts, brokerage fees or any non-monetary compensation with respect to the issuance or offering of any securities were granted by the Company or its Subsidiary during the three years preceding the date the application for registration and offering of the securities was submitted.
- During the last 12 months, there has been no interruption in the business of Company or its Subsidiary that may influence or have a significant impact on its financial situation.
- There is no intention to materially change the nature of the Company or its Subsidiary.
- Assignment of all shares of Amlak for Development to the Company does not constitute a material change in accordance with Article 24.6 of the Rules on the Offer of Securities and Continuing Obligations.
- As of the date of this Prospectus, the Directors will not vote on decisions related to contracts or transactions in which they have a direct or indirect interest.
- There has been no material adverse change in the financial or trading position of the Company or its Subsidiary during the three years immediately preceding the year the application for registration and offering of the securities subject to this Prospectus was submitted, or during the period covered by the chartered accountant's report until the date of the approval of this Prospectus.
- Except as described in Section 5.6.3 "**Employee Share Scheme**", there are no other employee share schemes entitling employees to participate in the Company's Share Capital, and there are no other similar arrangements in place.
- The Company does not have any securities (contractual or otherwise) or any assets that are subject to fluctuation which would adversely and materially affect the financial position.
- Except as disclosed in Section 2 "**Risk Factors**", the Company is not aware of any information regarding any governmental, economic, financial, monetary or political policies or any other factors that have or may have a material impact (directly or indirectly) on its business.
- Except as disclosed in Section 2 "**Risk Factors**", the Company is not aware of any seasonal factors or economic cycles related to the business that may have an effect on the Company's businesses or its financial position.
- The information included in Section 3 "**Market Overview**" that was obtained from third party sources represent the latest information available from the relevant source.

- The Company's insurance policies sufficiently cover the Company and its business. The Company periodically renews the insurance policies and contracts in order to ensure continued insurance coverage.
- All contracts and agreements that the Company believes to be significant or material or which may affect investor decisions to invest in the Offer Shares have been disclosed. There are no other material agreements that have not been disclosed.
- All terms and conditions that may affect investor decisions to invest in the Offering Shares have been disclosed.
- The Selling Shareholders shall incur all expenses and costs pertaining to the Offering, and such expenses will be deducted from the proceeds of the Offering. These expenses include the fees of the Financial Advisors, Underwriter, Legal Advisor, Chartered Accountant, and Market Consultant as well as the Receiving Agents fees, marketing, printing and distribution and other expenses related to the Offering.
- They have developed procedures, controls and systems to enable the Company to meet the requirements of relevant laws, regulations and legislation, including the Companies Law, the CMA Law and its Implementing Regulations, and the Rules on the Offer of Securities and Continuing Obligations, as well as the Listing Rules.
- All of the Company's non-Saudi staff is under its sponsorship.
- As of the date of this Prospectus, the persons whose names appear in Section 5.2.1 "**Current Shareholding Structure**" are the de jure and de facto owners of the Company's shares. In addition, the Directors declare that the shareholding structure of the Company is compliant with the Foreign Investment Law.
- All increases in the Company's capital were made in a manner that does not conflict with the applicable laws and regulations in the KSA.
- Except as disclosed in Section 2 "**Risk Factors**", and to the best of their knowledge and belief, there are no other material risks that may affect a prospective investor's decision to invest in the Offer Shares.
- Except as disclosed in Section 2 "**Risk Factors**" the Company has obtained all the essential operating licenses and approvals.
- Except as disclosed in Section 2 "**Risk Factors**", the Company and its Subsidiary are not party to any disputes, claims, lawsuits or outstanding investigation proceedings that may have a material impact on the Company's operations or financial position.
- Except as disclosed in Section 2 "**Risk Factors**", the Company has neither issued any debt instruments, nor received any term or other loans or have any outstanding loans or debts.
- There are no other mortgages, rights and encumbrances on the properties of the Company or its Subsidiary as of the date of this Prospectus.
- The Issuer - severally or jointly with its subsidiaries - has working capital sufficient for at least the twelve (12) months immediately following the date of publication of this Prospectus.
- None of the shares of the Company or its subsidiaries are under any option.
- As of the date of this Prospectus, neither the Company nor its Subsidiary has a policy on research and development.
- The financial information presented in this Prospectus and the audited financial statements for the years ended 31 December 2016G, along with notes thereto, have been prepared in accordance with IFRS approved by SOCPA. The audited financial statements for the years ended 31 December 2017G, 2018G and the six-month period ended 30 June 2019G, and the notes thereto, have been prepared in accordance with IFRS approved by SOCPA, as amended by SAMA for the calculation of Zakat and income tax, and have been audited by the Auditors.
- The Company is capable of preparing the necessary reports in timely manner according to the executive regulations issued by SOCPA.
- Except as disclosed in Section 2 "**Risk Factors**", all necessary approvals have been obtained from lenders to offer 30% of the Company's shares in a public offering, making the Company a public joint stock company.
- The Company is committed to all of the terms and conditions of the agreements entered into with providers of all loans, facilities and financing.

- The Company is in compliance with the laws, rules and regulations issued by SAMA with respect to capital adequacy, enhanced coverage of risk, and statutory capital reserve ratios.
- The Company adheres to rules for calculating Zakat on finance activities, issued by the Resolution of the Minister of Finance No. (2215) dated 7/7/1440H.

In addition to the declarations set out above, the Directors declare and acknowledge that:

- Third party information and data included in this Prospectus, including the information derived from the market research report prepared by the Market Consultant, is reliable and there is no reason for the Company to believe that such information is materially inaccurate.
- The Company has laid down appropriate internal control systems, including a written policy to regulate conflicts of interest and address any possible cases of conflict, which include the misuse of the Company's assets and abuse resulting from transactions with related parties.
- In addition, the Company has ensured the integrity of financial and operational systems and the application of appropriate controls to manage risk in accordance with the requirements of the Corporate Governance Regulations. The Directors also review the Company's internal control procedures annually.
- Accounting and internal control systems and information technology are sufficient and convenient.
- Except as disclosed in Section 12.5.10 "**Agreements with Related Parties**", there are no conflicts of interest related to the Directors in respect of the contracts or transactions entered into with the Company.
- As of the date hereof and except as mentioned herein and in Table (74) "**Business of Directors competing with the Company**" hereof, none of the Directors have participated in any activity similar to or competitive with that of the Company or its Subsidiary. The Directors undertake to fulfill this regulatory requirement in the future as per Article (72) of the Companies Law and the Corporate Governance Regulations.
- The Directors are not permitted to have any direct or indirect interest in the Company's transactions and contracts except with the permission of the General Assembly.
- The Directors shall notify the Board of Directors of any direct or indirect interest they have in the transactions and contracts entered into by the Company, and this notification will be recorded in the minutes of the Board of Directors meeting.
- All transactions with related parties shall be entered into on a competitive basis, and all business and contracts with related parties shall be subject to a vote in meetings of the Board of Directors and - where the law so requires - the Company's General Assembly. Directors may not vote on any decision related to business and contracts of the Company in which they hold a direct or indirect interest, whether in the Board of Directors or General Assembly, in accordance with Article 71 of the Companies Law and Chapter VI of Part III of the Corporate Governance Regulations.
- The Directors and CEO shall not have the right to vote on decisions relating to their fees and remuneration.
- Neither the Directors nor any of its Senior Executives may obtain a loan from the Company or its Subsidiary, and the Company shall not guarantee any loan entered into by a Director.
- There are no other mortgages, rights and encumbrances on the properties of the Company or its Subsidiary as of the date of this Prospectus.
- The Company has not received any notice from lenders stating that it has breached any of its undertakings and obligations under the financing agreements up to the date of this Prospectus.
- The Company has not been involved in any disputes over the registration of the shares of Amlak for Development in the names of the two Directors mentioned in the Section "**Risks Related to the Registration of Real Estate Deeds**" except as disclosed in section ((12-9-1) Zakat and Tax Disputes) in this Prospectus and as of the date of this Prospectus, the Company has not committed any violations with respect to the application of VAT.
- All observations of inspections have been processed as agreed with SAMA, and no financial or non-financial liabilities related to SAMA observations are expected as of the date of this Prospectus.
- The Company is not engaged in any business activity outside the Kingdom as of the date of this Prospectus.
- The Company is committed to restructuring investments in order to separate them from its business or exit them, as determined by SAMA.

- As of the date of this Prospectus, SAMA has not set a specific date for exiting joint investments.
- The Employee Share Scheme has been suspended until it is reviewed in accordance with the Capital Market Law and the Implementing Regulations and the necessary approvals are obtained after the Offering.

The Directors shall:

- Record the Board's decisions and resolutions in written minutes signed thereby.
- Disclose the details of any related party transactions in accordance with the Companies Law and the Corporate Governance Regulations.
- Comply with Articles 71, 72, 73 of the Companies Law, and Chapter VI of Part III of the Corporate Governance Regulations
- Submit internal governance regulations (general governance framework) that are compliant with the regulations and rules of the Capital Market Authority to the next General Assembly for voting.
- Neither the Directors nor the CEO has the right to vote on their fees and remuneration.
- Directors and Senior Executives may not obtain loans from the Issuer, save as loans granted as part of the Company's financing business.
- Neither the Directors nor the CEO has the right to vote on a contract or proposal in which they have an interest.

12. Legal information

12.1 The Company

Amlak International for Real Estate Finance is a Saudi closed joint stock company under Commercial Registration No. 1010234356 dated 27/05/1428H (corresponding to 13/06/2007G), Ministerial Resolution No. 132/S dated 25/05/1428H (corresponding to 11/06/2007G), SAMA License No. 2/PU/201312 dated 21/02/1435H (corresponding to 24/12/2013G), and SAGIA License No. 102030115042 dated 19/12/1427H (corresponding to 09/01/2007G). The Company's registered address is P.O. Box 28088, Al Mathar Street, Riyadh, 11437, KSA the Company's headquarters were then transfer to their new location located at 3485 ath thumamah road, Al Rabie District Riyadh 13316 - 8450 P.O. Box 28088, Riyadh, 11437, Kingdom of Saudi Arabia.

The Company's current Share Capital is nine hundred six million (906,000,000) Saudi riyals divided into ninety million, six hundred thousand (90,600,000) shares with a fully-paid nominal value of ten (10) Saudi riyals per share. Pursuant to its Commercial Registration and SAMA License, the Company is mainly engaged in the real estate finance business.

At incorporation, the Company's Share Capital was one billion (1,000,000,000) Saudi riyals divided into one hundred million (100,000,000) ordinary cash shares with a fully-paid nominal value of ten (10) Saudi riyals per share. At the Extraordinary General Assembly Meeting held on 02/09/1432H (corresponding to 02/08/2011G), the Shareholders decided to reduce the Share Capital from one billion (1,000,000,000) Saudi riyals to eight hundred seventy-seven million, five hundred thousand (877,500,000) Saudi riyals, as it exceeded the Company's needs. To reduce it, the Company was to purchase and cancel twelve million, two hundred fifty thousand (12,250,000) shares in accordance with the relevant provisions of the Companies Law. At its meeting held on 09/06/1433H (corresponding to 30/04/2012G), the Extraordinary General Assembly decided to amend its previous decision on the reduction of the Share Capital from one billion (1,000,000,000) Saudi riyals to eight hundred seventy-seven million, five hundred thousand (877,500,000) Saudi riyals. Following this amendment, the Share Capital was to be reduced from one billion (1,000,000,000) Saudi riyals to fully paid nine hundred million (900,000,000) Saudi riyals, as it exceeded the Company's needs. To reduce it, the Company was to purchase and cancel ten million (10,000,000) shares in accordance with the relevant provisions of the Companies Law. On 19/08/1438H (corresponding to 16/05/2017G), the Extraordinary General Assembly decided to increase the Share Capital of the Company from fully-paid nine hundred million (900,000,000) Saudi riyals to fully-paid nine hundred three million (903,000,000) Saudi riyals through issuance of three hundred thousand (300,000) new shares at a value of three million (3,000,000) Saudi riyals, registered for some employees under the Employee Share Scheme. At the Extraordinary General Assembly meeting held on 21/08/1439H (corresponding to 07/05/2018G), the Shareholders also approved the increase in the Company's Share Capital from fully-paid nine hundred three million (903,000,000) Saudi riyals to fully-paid nine hundred six million (906,000,000) Saudi riyals, which is the amount of the current Share Capital, through issuance of three hundred thousand (300,000) new shares at a value of three million (3,000,000) Saudi riyals, registered for some employees under the Employee Share Scheme (for further details, please see Section 4 "**The Company and the Nature of its Business**").

12.2 Shareholding Structure

The following table sets out the Company's share ownership and Selling Shareholders before and after the Offering:

Table (181): Company ownership structure

Shareholders	Pre-Offering				Post-Offering			
	Number of shares	Nominal value (SAR)	Direct ownership (%)	Indirect ownership (%)	Number of shares	Nominal value (SAR)	Direct ownership (%)	Indirect ownership (%)
The Saudi Investment Bank	29,000,000	290,000,000	32.01%	N/A	20,300,000	203,000,000	22.41%	N/A
Amlak Finance	23,750,000	237,500,000	26.21%	N/A	16,625,000	166,250,000	18.35%	N/A
Al Tawfeek Development House	13,000,000	130,000,000	14.35%	N/A	9,100,000	91,000,000	10.04%	N/A

Shareholders	Pre-Offering				Post-Offering			
	Number of shares	Nominal value (SAR)	Direct ownership (%)	Indirect ownership (%)	Number of shares	Nominal value (SAR)	Direct ownership (%)	Indirect ownership (%)
Almakarim International for Real Estate Development	5,100,000	51,000,000	5.63%	N/A	3,570,000	35,700,000	3.94%	N/A
Aseer Company for Trading and Tourism	5,000,000	50,000,000	5.52%	N/A	3,500,000	35,000,000	3.86%	N/A
Al Bawarej International Development & Real Estate Investment Company	2,550,000	25,500,000	2.81%	N/A	1,785,000	17,850,000	1.97%	N/A
Sami Saeed Ali Al-Angari	2,550,000	25,500,000	2.81%	N/A	1,785,000	17,850,000	1.97%	N/A
Al-Nawasi Al-Arabia for Development and Advancement	2,550,000	25,500,000	2.81%	N/A	1,785,000	17,850,000	1.97%	N/A
Abdullah Ibrahim Sulaiman Al-Howaish	2,062,500	20,625,000	2.28%	N/A	1,443,750	14,437,500	1.59%	N/A
Zarabi Al-Arabia for Development and Advancement	1,250,000	12,500,000	1.38%	N/A	875,000	8,750,000	0.97%	N/A
Mohammed Abdulrahman Sulaiman Al-Farraj	750,000	7,500,000	0.83%	N/A	525,000	5,250,000	0.58%	N/A
Abdullah Khalid Abdullah Al-Melhem	750,000	7,500,000	0.83%	N/A	525,000	5,250,000	0.58%	N/A
Sulaiman Mohammed Sulaiman Al-Romaih	750,000	7,500,000	0.83%	N/A	525,000	5,250,000	0.58%	N/A
Abdulaziz Abdulrahman Abdullah Al-Modaimegh	750,000	7,500,000	0.83%	N/A	525,000	5,250,000	0.58%	N/A
Abdullah Turki Saad Al Sudairy	300,000	3,000,000	0.33%	N/A	210,000	2,100,000	0.23%	N/A
Tawfiq Yahya Hassan Maafa	97,500	975,000	0.11%	N/A	68,250	682,500	0.08%	N/A
Saud Abdullah Abdulrahman Al Shathri	85,000	850,000	0.09%	N/A	59,500	595,000	0.07%	N/A
Nizar Saleh Ibrahim Al Suwaiyan	52,500	525,000	0.06%	N/A	36,750	367,500	0.04%	N/A
Osama Mirza Saleh Al-Khanzeri	50,000	500,000	0.06%	N/A	35,000	350,000	0.04%	N/A
Mohammed Habeeb Mohammed Al Salman	42,500	425,000	0.05%	N/A	29,750	297,500	0.03%	N/A
Abdullah Saad Ali Al Shathri	40,000	400,000	0.04%	N/A	28,000	280,000	0.03%	N/A
Ali Mohammed Zafir Alshashaa	40,000	400,000	0.04%	N/A	28,000	280,000	0.03%	N/A

Shareholders	Pre-Offering				Post-Offering			
	Number of shares	Nominal value (SAR)	Direct ownership (%)	Indirect ownership (%)	Number of shares	Nominal value (SAR)	Direct ownership (%)	Indirect ownership (%)
Turki Otaibi Moaid Al Zahrani	27,500	275,000	0.03%	N/A	19,250	192,500	0.02%	N/A
Rashed Khalid Rashed Al Madyan	27,500	275,000	0.03%	N/A	19,250	192,500	0.02%	N/A
Khaled Ibrahim Mohamed Al-Aqeel	15,000	150,000	0.02%	N/A	10,500	105,000	0.01%	N/A
Omar Sulaiman Abdulaziz Abanomia	10,000	100,000	0.01%	N/A	7,000	70,000	0.01%	N/A
The public	-	-	-	-	27,180,000	271,800,000	30.00%	-
Total	90,600,000	906,000,000	100.00%		90,600,000	906,000,000	100.00%	-

Source: The Company.

Details regarding shareholding structure are described in Section 5.2.1 "**Current Shareholding Structure**".

12.3 Branches and Subsidiaries

12.3.1 Branches

The Company is headquartered in Riyadh, and has three branches in the Kingdom, the Riyadh branch which holds the same commercial registration and business information as the Head Office; the Khobar branch which holds Commercial Registration No. 2051224110 and is engaged in financing and purchasing houses, residential land and apartments in Saudi Arabia, financing real estate being developed by all companies operating in the field of real estate development, financing the establishment of commercial and industrial projects and providing financial leasing services for fixed and movable assets; and the Jeddah Branch, which holds Commercial Registration No. 4030171680 and is engaged in real estate finance under SAMA License No. 2/ PU/201312.

12.3.2 The Company's Subsidiaries and Investments

The Company holds shares and interest in the following companies:

Table (182): The Company's subsidiaries and investments

No.	Company name	Commercial Registration No.	Date of issue	Company's ownership percentage
1.	Amlak International for Real Estate Development (a one-person company)	1010317413	06/11/1432H (corresponding to 04/10/2011G)	100.00%
2.	Saudi Finance Lease Registration Company (a Saudi closed joint stock company)	1010612415	03/02/1439H (corresponding to 23/10/2017G)	2.38%

Source: The Company.

Please see Section 4.2.2 ("**Amlak International for Real Estate Development**") for further details on Amlak International for Real Estate Development. With regard to the Company's investment in Saudi Financial Lease Registration Company, this company was established as a Saudi closed joint stock company under Commercial Registration No. 1010612415 dated 03/02/1439H (corresponding to 23/10/2017G), and is headquartered in Riyadh. The company is engaged in the registration of finance lease contracts, as amended under SAMA Approval No. 381000124076 dated 23/12/1438H (corresponding to 14/09/2017G).

Below is a table summarizing the ownership structure of Saudi Financial Lease Registration Company:

Table (183): Ownership structure of Saudi Financial Lease Registration Company

Shareholders	Number of shares	Nominal value per share (SAR)	Share value (SAR)	Ownership %
Bidaya Home Finance	89,315	10	893,150	2.381%
Riyad Bank	89,285	10	892,850	2.380%
Saudi British Bank (SABB)	89,285	10	892,850	2.380%
Saudi ORIX Leasing Company	89,285	10	892,850	2.380%
Ijarah Finance	89,285	10	892,850	2.380%
NCB	89,285	10	892,850	2.380%
Bank Albilad	89,285	10	892,850	2.380%
Aljabr Financing	89,285	10	892,850	2.380%
AlRaedah Finance	89,285	10	892,850	2.380%
Raya Financing Company	89,285	10	892,850	2.380%
Arab National Bank	89,285	10	892,850	2.380%
Nayifat Finance Company	89,285	10	892,850	2.380%
Dar Al Tamleek	89,285	10	892,850	2.380%
Finance Lease Company	89,285	10	892,850	2.380%
Amlak International for Real Estate Finance	89,285	10	892,850	2.380%
Al Yusr Leasing & Financing	89,285	10	892,850	2.380%
Banque Saudi Fransi	89,285	10	892,850	2.380%
Gulf Lifting Financial Leasing Company	89,285	10	892,850	2.380%
Al Rajhi Bank	89,285	10	892,850	2.380%
Saudi Home Loans	89,285	10	892,850	2.380%
The Saudi Investment Bank	89,285	10	892,850	2.380%
AJIL Financial Services Company	89,285	10	892,850	2.380%
Deutsche Gulf Finance	89,285	10	892,850	2.380%
Alinma Bank	89,285	10	892,850	2.380%
Saudi Hollandi Bank	89,285	10	892,850	2.380%
Bank AlJazira	89,285	10	892,850	2.380%
National Finance Co.	89,285	10	892,850	2.380%
Morabaha Marina Financing Company	89,285	10	892,850	2.380%
Kirnaf Finance Company	89,285	10	892,850	2.380%
Al Jasriah Finance	89,285	10	892,850	2.380%
Saudi Finance Company (SFCO)	89,285	10	892,850	2.380%
Abdul Latif Jameel Real Estate Finance	89,285	10	892,850	2.380%
Abdul Latif Jameel United Finance Co.	89,285	10	892,850	2.380%
Gulf Finance Corporation	89,285	10	892,850	2.380%
TAMWILY	89,285	10	892,850	2.380%
Al Amthal Financing	89,285	10	892,850	2.380%
Osoul Modern Finance Company	89,285	10	892,850	2.380%
Dar Aletiman Al Saudi	89,285	10	892,850	2.380%
Tawkelat Financing Company	89,285	10	892,850	2.380%
Tayseer Finance	89,285	10	892,850	2.380%
Saudi Fransi for Finance Leasing Company	89,285	10	892,850	2.380%
Tamweel Aloula Company	89,285	10	892,850	2.380%
Total	**3,750,000**	**–**	**37,500,000**	**100.000%**

Source: The Company.

* Shareholding percentages are rounded.

12.4 Key Licenses and Approvals

The Company (including its branches) has obtained several regular and operating licenses and certificates from competent authorities, which are periodically renewed. The Board of Directors declares that the Company holds all licenses and approvals required to practice its activities, as follows:

A. Key and operating licenses and approvals of the Company and its Branches

Table (184): Key licenses and approvals as at 31/07/2019G

License type	Purpose	License No.	Expiry date	Issuer
Key and operating licenses and approvals issued to the Company				
Commercial Registration	Registration of the Company in the Commercial Register	1010234356	27/05/1443H (corresponding to 31/12/2021G)	Riyadh Commercial Register Office
Foreign Investment License	The Company's license to invest in the Kingdom Saudi Arabia, given it has foreign partners	102030115042	6/12/1444H (corresponding to 25/6/2023G)	SAGIA
SAMA License	License to engage in real estate finance	2/PU/201312	19/02/1445H (corresponding to 04/09/2023G)	Saudi Arabian Monetary Authority
Zakat certificate	Company's compliance with Zakat requirements for the period ended 31/12/2018G	1110465160	07/09/1441H (corresponding to 30/4/2020G)	GAZT
VAT Registration Certificate	Registration of the Company under VAT	3000040783	N/A	GAZT
Saudization Certificate	Company's compliance with Saudisation requirements	20001908002336	07/03/1441H (corresponding to 04/11/2019G) The certificate is issued, valid for three months upon request to prove the status of the Company and its compliance with Saudisation requirements	MLSD
GOSI certificate	Company's compliance with GOSI requirements	501717878	04/01/1441H (corresponding to 03/09/2019G) The certificate is issued, valid for one month upon request to prove registration of the Company and its compliance with GOSI requirements	GOSI
Municipality license	License to practice business issued to the Company's head office	572-31	3/6/1441H (corresponding to 28/1/2020G)	MOMRA
Civil Defense Permit	Civil defense permit issued to the Company's head office	N/A	It has not been issued by the owner of the building rented by the Company	General Directorate of Civil Defense

License type	Purpose	License No.	Expiry date	Issuer
Chamber of Commerce Certificate	Certificate of the Company's membership in the Riyadh Chamber of Commerce	101000182777	31/12/2021G	Riyadh Chamber of Commerce and Industry
Key and operating licenses and approvals issued to the Company's Khobar branch				
Commercial Registration	Registration of the branch in the Commercial Register	2051224110	29/12/1443H (corresponding to 28/7/2022G)	Khobar Commercial Register Office
Municipality license	Professional license for the branch office	39111381370	Under renewal	MOMRA
Civil Defense Permit	Civil defense permit issued to the branch office	100013564839	Under renewal	General Directorate of Civil Defense
Chamber of Commerce Certificate	Certificate of the branch's membership in the Chamber of Commerce of the Eastern Province	N/A	N/A	Chamber of Commerce and Industry of the Eastern Province
Key and operating licenses and approvals issued to the Company's Jeddah branch				
Commercial Registration	Registration of the branch in the Commercial Register	4030171680	24/07/1443H (corresponding to 25/02/2022G)	Jeddah Commercial Register Office
Municipality license	Professional license of the branch office	1100006865	02/11/1441H (corresponding to 23/06/2020G)	MOMRA
Civil Defense Permit	Civil defense permit issued to the branch office	41-000200175-2	04/01/1442H (corresponding to 26/08/2020G)	General Directorate of Civil Defense
Chamber of Commerce Certificate	Certificate of the branch's membership in the Jeddah Chamber of Commerce	N/A	N/A	Jeddah Chamber of Commerce and Industry

Source: The Company.

B. Key and operating licenses and approvals of the Company's Subsidiary

License type	Purpose	License No.	Expiry date	Issuer
Commercial Registration	Registration of the Company in the Commercial Register	1010317413	6/11/1443H (corresponding to 05/06/2022G)	Riyadh Commercial Register Office
Foreign Investment License	The Company's license to invest in the Kingdom Saudi Arabia, given it has foreign partners	10312400386803	27/02/1445H (corresponding to 13/09/2023G)	SAGIA
Zakat Certificate	Company's compliance with Zakat requirements	1020373790	Under renewal	GAZT
Municipality license	License to practice business issued to the Company's Subsidiary	36-685	23/04/1441G 20/12/2019G	MOMRA
Civil Defense Permit	Civil defense permit issued to the Company's Subsidiary	N/A	It has not been issued by the owner of the building rented by the Company	General Directorate of Civil Defense
Chamber of Commerce Certificate	Certificate of the Company's Subsidiary's membership in the Riyadh Chamber of Commerce	101000278747	06/11/1443H (corresponding to 05/06/2022G)	Riyadh Chamber of Commerce and Industry

12.5 Summary of Material Agreements

12.5.1 Real Estate Finance Agreements

12.5.1.1 Real Estate Finance Agreement Models approved by the Company

The Company has adopted fourteen (14) main models for its contracts with customers. Following is a summary of the most important provisions of these models:

Table (185): Main real estate finance agreement models approved by the Company

Model	Nature of contract and type of property	Transfer of property	Early acquisition / Early repayment	Rent / Price
Retail				
1- Contract to lease land whose infra-structure services are under com-pletion (Retail)	In this type of contract, the customer leases land, where infrastructure works related to water, electricity, licenses and roads are being performed by a contractor pre-appointed by the Company. The Company assigns its rights arising from the contractor's obligations to the customer as a lessee, which the customer accepts.	The Company undertakes to donate the leased land to the customer if the customer fully pays the rent installments and any other fees or charges due under the contract.	– The customer has the right to claim early acquisition of the land by purchasing it two years after the date they receive the land, under a separate agreement, pursuant to which the customer pays the required amount as determined by the Company and according to the mechanism referred to in the finance data annex attached to the contract. – The lease shall expire upon early acquisition by the customer. – The customer is entitled to early acquisition before receiving the land with the approval of the Company, in which case the deposit paid shall be considered part of the land price.	– The rent is an installment paid on a monthly basis according to a monthly repayment schedule of 6-month rental periods. – The customer pays a deposit as an advance rental payment upon receipt of the land, which is amortized by the Company on a monthly basis for a maximum of 6 months. – The annual percentage rate (APR) is reviewed and changed once every two rental periods according to changes in SIBOR, up or down, and accordingly variable installments change. Thus, the total monthly rental installment changes and fixed installments are redistributed. – Within a period of two months prior to the commencement of each lease period, the Company notifies the customer in writing of the review and change of the variable installment and sends the repayment schedule to the customer indicating the total monthly rental installment after the new APR is applied.
2- Land lease to own contract (Retail)	The customer leases land.	The Company undertakes to donate the leased land to the customer at the end of the contract term if the customer fulfills their full obligations under the contract.	– The customer has the right to claim early acquisition of the land by purchasing it two years after the date they receive the land, under a separate agreement, pursuant to which the customer pays the required amount as determined by the Company and according to the mechanism referred to in the finance data annex attached to the contract. – The lease shall expire upon early acquisition by the customer.	– The rent is an installment paid on a monthly basis according to a monthly repayment schedule of 6-month rental periods. – The customer pays a deposit as an advance rental payment upon receipt of the land, which is amortized by the Company on a monthly basis for a maximum of 6 months. – The annual percentage rate (APR) is reviewed and changed once every two rental periods according to changes in SIBOR, up or down, and accordingly variable installments change. Thus, the total monthly rental installment changes and fixed installments are redistributed. – Within a period of two months prior to the commencement of each lease period, the Company notifies the customer in writing of the review and change of the variable installment and sends the repayment schedule to the customer indicating the total monthly rental installment after the new APR is applied.

Model	Nature of contract and type of property	Transfer of property	Early acquisition / Early repayment	Rent / Price
3- Ijara mawsofa fi athemmah contract (Retail)	The customer leases real estate units that are in the process of being constructed by the Company through the project owner/ developer, contracted with in advance by the Company under an Istisna'a contract - in accordance with detailed plans and maps, and building and finishing specifications set out in the contract. Thus, the contract takes the form of a forward lease and the units shall be delivered on a specified date to be agreed upon by both parties, giving the customer the option of either early acquisition if the units are fully prepared before the specified date or late receipt within a period of not more than one year from the specified date. In the case of force majeure, an extension of six months is given.	The Company undertakes to donate the leased real estate unit to the customer if the customer fully pays the rent installments and any other fees or charges due under the contract.	– The customer has the right to claim early acquisition of the real estate unit by purchasing it two years after the date they receive the unit, under a separate agreement, pursuant to which the customer pays the required amount as determined by the Company and according to the mechanism referred to in the finance data annex attached to the contract. – The lease shall expire upon early acquisition by the customer. – The customer is entitled to early acquisition before receiving the real estate unit with the approval of the Company, in which case the deposit paid shall be considered part of the unit price.	– The rent is an installment paid on a monthly basis according to a monthly repayment schedule of 6-month rental periods. – The customer pays a deposit as an advance rental payment upon receipt of the land, which is amortized by the Company on a monthly basis for a maximum of 6 months. – The annual percentage rate (APR) is reviewed and changed once every two rental periods according to changes in SIBOR, up or down, and accordingly variable installments change. Thus, the total monthly rental installment changes and fixed installments are redistributed. – Within a period of two months prior to the commencement of each lease period, the Company notifies the customer in writing of the review and change of the variable installment and sends the repayment schedule to the customer indicating the total monthly rental installment after the new APR is applied.
4- Lease of prefab-ricated houses (Retail)	The customer leases a residential real estate unit.	The Company undertakes to donate the leased real estate unit to the customer at the end of the contract term if the customer fulfills their full obligations under the contract.	– The customer has the right to claim early acquisition of the real estate unit by purchasing it two years after the date they receive the unit, under a separate agreement, pursuant to which the customer pays the required amount as determined by the Company and according to the mechanism referred to in the finance data annex attached to the contract. – The lease shall expire upon early acquisition by the customer.	– The rent is an installment paid on a monthly basis according to a monthly repayment schedule of 6-month rental periods. – The customer pays a deposit as an advance rental payment upon receipt of the unit, which is amortized by the Company on a monthly basis for a maximum of 6 months. – The annual percentage rate (APR) is reviewed and changed once every two rental periods according to changes in SIBOR, up or down, and accordingly variable installments change. Thus, the total monthly rental installment changes and fixed installments are redistributed. – Within a period of two months prior to the commencement of each lease period, the Company notifies the customer in writing of the review and change of the variable installment and sends the repayment schedule to the customer indicating the total monthly rental installment after the new APR is applied.

Model	Nature of contract and type of property	Transfer of property	Early acquisition / Early repayment	Rent / Price
5- Contract for the sale of Ijara products (Retail)	This model is used for the purchase of real estate units or land by the Company in lease purchase agreements for such real estate units or land, whereby the Company purchases the leased real estate unit or land from the customer.	Title is transferred upon conveyance.	N/A	The price of the property is paid upon conveyance.
6- Muraba-ha sale contract for the additional financing program	The customer purchases a residential unit by way of Murabaha through the additional financing program in cooperation with Real Estate Development Fund (REDF), provided the customer obtains REDF's approval to obtain a loan. The customer mortgages the residential unit to REDF as collateral for the loan and to the Company as collateral for the remaining price of the residential unit.	Title is transferred to the customer upon conveyance, with the residential unit mortgaged to REDF and the Company.	– The customer has the right to claim early payment after two years of the contract term under a separate agreement in which the customer pays the required amount as determined by the Company and according to the mechanism referred to in the appendix of the financing statements attached to the contract. – The Murabaha contract shall expire upon early repayment by the customer.	– REDF grants a loan to the customer provided that the Company collects the full amount of the loan directly from REDF. – The customer repays the loan to REDF in installments and provides an advance payment to the Company. – The customer pays the remaining amount of the residential unit price according to the repayment schedule. The customer may not cease to pay the Company's installments on account of their obligation to repay the loan installments.
Corporate and High-Net-Worth Individuals				
7- Land lease contract (Corpo-rate)	The customer leases land.	The Company undertakes to donate the leased land to the customer at the end of the contract term if the customer fulfills their full obligations under the contract.	– The customer has the right to claim early acquisition of the land by purchasing it two years after the date they receive the land, under a separate agreement, pursuant to which the customer pays the required amount as determined by the Company and according to the mechanism referred to in the finance data annex attached to the contract. – The lease shall expire upon early acquisition by the customer.	– The rent is an installment paid on a regular basis according to a monthly repayment schedule of 6-month rental periods. – The annual percentage rate (APR) is reviewed and changed once every two rental periods according to changes in SIBOR, up or down, and accordingly variable installments change. Thus, the total monthly rental installment changes and fixed installments are redistributed. – Within a period of two months prior to the commencement of each lease period, the Company notifies the customer in writing of the review and change of the variable installment and sends the repayment schedule to the customer indicating the total monthly rental installment after the new APR is applied. – * In this type of contract, it is possible to agree on a fixed rent that is not subject to changes according to SIBOR. An advance rental payment can also be agreed upon.

Model	Nature of contract and type of property	Transfer of property	Early acquisition / Early repayment	Rent / Price
8- Lease to own contract - variable rent (Corporate)	The customer leases a real estate unit for a variable rent.	The Company undertakes to donate the leased real estate unit to the customer at the end of the contract term if the customer fulfills their full obligations under the contract.	– The customer has the right to claim early acquisition of the real estate unit by purchasing it two years after the date they receive the unit, under a separate agreement, pursuant to which the customer pays the required amount as determined by the Company and according to the mechanism referred to in the finance data annex attached to the contract. – The lease shall expire upon early acquisition by the customer.	– The rent is an installment paid on a regular basis according to a monthly repayment schedule of 6-month rental periods. – The annual percentage rate (APR) is reviewed and changed once every two rental periods according to changes in SIBOR, up or down, and accordingly variable installments change. Thus, the total monthly rental installment changes and fixed installments are redistributed. – Within a period of two months prior to the commencement of each lease period, the Company notifies the customer in writing of the review and change of the variable installment and sends the repayment schedule to the customer indicating the total monthly rental installment after the new APR is applied. – * In this type of contract, an advance rental payment can also be agreed upon.
9- Lease to own contract - fixed rent (Corporate)	The customer leases a real estate unit for a fixed rent.	The Company undertakes to donate the leased real estate unit to the customer at the end of the contract term if the customer fulfills their full obligations under the contract.	– The customer has the right to claim early acquisition of the real estate unit by purchasing it two years after the date they receive the unit, under a separate agreement, pursuant to which the customer pays the required amount as determined by the Company and according to the mechanism referred to in the finance data annex attached to the contract. – The lease shall expire upon early acquisition by the Customer.	– The rent is an installment paid on a regular basis according to a monthly repayment schedule of 6-month rental periods. – * In this type of contract, an advance rental payment can also be agreed upon.

Model	Nature of contract and type of property	Transfer of property	Early acquisition / Early repayment	Rent / Price
10- Ijara mawsofa fi athema contract (Corporate)	The customer leases real estate units that are in the process of being constructed by the Company in accordance with detailed plans and maps, and building and finishing specifications set out in the contract, to be executed by the customer contracted with in advance under an Istisna'a contract. Thus, the contract takes the form of a forward lease and the units shall be delivered on a specified date to be agreed upon by both parties, giving the customer the option of either early acquisition if the units are fully prepared before the specified date or late receipt within a period of not more than one year from the specified date.	The Company undertakes to donate the leased real estate unit to the customer through transferring title thereto if the customer fully pays the rent installments and any other fees or charges due under the contract.	– The customer has the right to claim early acquisition of the real estate unit by purchasing it two years after the date they receive the unit, under a separate agreement, pursuant to which the customer pays the required amount as determined by the Company and according to the mechanism referred to in the finance data annex attached to the contract. – The lease shall expire upon early acquisition by the Customer.	– The rent is an installment paid on a regular basis according to a monthly repayment schedule of 6-month rental periods. – The annual percentage rate (APR) is reviewed and changed once every two rental periods according to changes in SIBOR, up or down, and accordingly variable installments change. Thus, the total monthly rental installment changes and fixed installments are redistributed. – Within a period of two months prior to the commencement of each lease period, the Company notifies the customer in writing of the review and change of the variable installment and sends the repayment schedule to the customer indicating the total monthly rental installment after the new APR is applied. – * In this type of contract, it is possible to agree on a fixed rent that is not subject to changes according to SIBOR. An advance rental payment can also be agreed upon.
11- Deed-annotated murabaha sale contract (Corporate)	The customer purchases land or a real estate unit from the Company for scheduled installments plus murabaha profit. The customer mortgages the plot or unit and yields thereof to the Company in accordance with the Registered Real Estate Mortgage Law.	Title is transferred to the customer upon conveyance, with the deed mortgaged to the Company.	– The customer has the right to claim early payment after two years of the contract term under a separate agreement in which the customer pays the required amount as determined by the Company and according to the mechanism referred to in the appendix of the financing statements attached to the contract. – The Murabaha contract shall expire upon early repayment by the customer and the Company' removal of the mortgage on the plot or the unit.	– The customer pays the purchase price of the property according to the repayment schedule plus murabaha profit. – * In this type of contract, an advance rental payment can also be agreed upon.

Model	Nature of contract and type of property	Transfer of property	Early acquisition / Early repayment	Rent / Price
12- Lease to own contract - fixed rent (Retail)	The customer leases a real estate unit for a fixed rent.	The Company undertakes to transfer the title to the leased asset at the end of the term to the customer on an ex gratia basis - by signing the title registration certificate - after the customer pays all amounts due under the contract.	– The customer is, at any time, entitled to early acquisition of the real estate unit within period of not less than ten days before the date the rent payment is made, through payment of unpaid rental payments due, the remainder of the financing amount and the cost of reinvestment. – The lease expires upon early acquisition by the customer.	The customer undertakes to make rental payments to the Company on a regular basis according to a repayment schedule.
13- Lease to own contract - fixed rent (Corpo-rate)	The customer leases a real estate unit for a variable rent.	The Company undertakes to transfer the title to the leased asset at the end of the term to the customer on an ex gratia basis - by signing the title registration certificate - after the customer pays all amounts due under the contract.	– The customer is, at any time, entitled to early acquisition of the real estate unit within period of not less than ten days before the date the rent payment is made, through payment of unpaid rental payments due, the remainder of the financing amount and the cost of reinvestment. – The lease expires upon early acquisition by the customer.	The customer undertakes to make rental payments to the Company on a regular basis according to a repayment schedule.
14- Joint liability contract - Lease to own contact	The customer leases a real estate unit for a fixed or variable rent.	The Company undertakes to transfer the title to the leased asset at the end of the term to the customer on an ex gratia basis - by signing the title registration certificate - after the customer pays all amounts due under the contract.	– The customer is, at any time, entitled to early acquisition of the real estate unit within period of not less than ten days before the date the rent payment is made, through payment of unpaid rental payments due, the remainder of the financing amount and the cost of reinvestment. – The lease expires upon early acquisition by the customer.	– The customer shall make rental payments to the Company on a regular basis according to a repayment schedule. The lessees collectively or individually shall be jointly liable for payment of the total amounts due under the contract.

With the exception of the contract for sale of Ijara products, which precedes the financing transaction and whereby the Company has the right to terminate the contract within 30 days from the date it is concluded, the Company has the right to terminate a Retail contract in the following cases:

1. If the customer fails to make the monthly installment after the Company has used all possible means to deal with the default, and the penalty stipulated under the contract has been imposed.
2. If the Company is unable to collect rental installments under this contract for any reason.
3. If the customer becomes bankrupt or insolvent, or their business is placed under liquidation.
4. If the customer breaches, fails to comply with, or delays execution of any of their obligations and undertakings under the contract.
5. If at any time it is found that the data or documents submitted by the customer to the Company are incorrect, if such affects compliance with the contract.
6. If the customer fails to pay any installment due to the Company or fees or taxes under the terms of this contract.

7. If the customer wishes to terminate the contract to be replaced by another lessee and the Company agrees.
8. If, at any time, the customer or any guarantor fails to fulfill their financial obligations or perform any other obligation, if such obligation is stated in any other agreement to which either the customer or any guarantor is a party or signatory, including agreements to obtain bank facilities or personal financing, whether from the Company or any other financial institution.

The Company also has the right to terminate Corporate and High-Net-Worth Individual contracts in the cases set out above, in addition to in the following cases:

1. If the customer or any guarantor party fails to duly perform any financial obligation stipulated in the contract or in the guarantee documents to which each of them is a party.
2. If there is a material change in the financial position of the customer or any guarantor that may affect the ability of either of them to fulfill any of the obligations stipulated in the contract or in the guarantee documents to which each of them is a party.
3. If the customer and/or any guarantor becomes insolvent, makes a general assignment to its creditors and/or reconciles with them, and/or is declared bankrupt by a court order, or if dissolution or liquidation proceedings are instituted against it, or a receiver or guardian and/or anyone of a similar capacity is appointed for the customer, any guarantor and/or any of its property.
4. If at any time the customer is required by law not to make any amount payable to the Company under the contract in arrears or financing in arrears, or to allow for it to remain in arrears.
5. If the customer breaches their obligations with respect to credit liabilities, warranties and representations under the contract.

The contracts require the customer to provide the Company with collaterals for payment such as a sight promissory note of a value that usually covers the entire dues of the Company and the transfer of the customer's monthly salary to a bank account determined by the Company, pledging it against the financial consideration due and authorizing the Company to deduct the value of the monthly installment and credit it the Company's account. This is in addition to other corporate and high-net-worth individual collaterals such as guarantees from the parent company, the assignment of the rents of a number of real estate properties to the Company and other guarantees.

Furthermore, corporate and high-net-worth individual contracts also require the customer to make pledges that vary according to the customer's status upon obtaining the credit approval. High-net-worth individuals are required to provide special pledges from the date the contract is signed until all installments are paid. For example:

1. Provide the Company from time to time, at its request, with any information regarding the customer's business and financial position.
2. Provide the Company with statements of account every six months at the end of June and December.
3. Obtain the prior written approval of the Company if any new facilities are obtained from any bank or finance company.
4. Comply with the applicable laws of the Kingdom where failure to comply may adversely affect the customer, its business, or ability to fulfill its financial obligations stipulated in the contract.
5. Immediately notify the Company if any future installments fall due.

The customer shall bear the fees, taxes or any charges imposed on the real estate unit or financing to register and authenticate the contracts as provided by the applicable laws of the Kingdom. The customer shall also notify the Company if it is subject to registration or any fees or taxes as determined by the applicable laws of the Kingdom. In the event of a dispute between the parties regarding the interpretation or implementation of these contracts or any provision thereof, such disputes shall be resolved amicably. Failing such, disputes shall be settled by a court with the jurisdiction to adjudicate disputes arising from real estate contracts in accordance with Article 13 of the Real Estate Finance Law, provided that the litigation is before the competent court in Riyadh.

12.5.1.2 Summary of Real Estate Agreements with the Company's Key Customers

Table (186): Summary of real estate agreements with the Company's key customers as at 31/07/2019G

Customer contract No.	Contract(s)	Brief description	Principal financing amount	Remainder of principal financing amount as at 31/07	Remainder of principal financing amount, plus accrued profit as at 31/07	Term and renewal
401010008439 An equipment rental company	Real estate finance lease contract	– Lease contract dated 23/03/2017G to finance the lease of land in Riyadh	89,000,000 Saudi riyals	78,090,909 Saudi riyals	80,455,021 Saudi riyals	– The term of the contract starts on 23/03/2017G and ends on 23/03/2023G.
401010008958 A real estate development company	A murabaha contract and four real estate finance lease contracts	– A murabaha contract dated 11/06/2018G to finance the purchase of a number of pieces of land in Riyadh ("Murabaha Contract"). – A lease contract dated 06/11/2016G to finance the lease of a number of pieces of land in Riyadh ("First Contract"). – A lease contract dated 20/11/2016G to finance the lease of a number of pieces of land in Riyadh ("Second Contract"). – A lease contract dated 06/08/2017G to finance the lease of a number of pieces of land in Riyadh ("Third Contract"). – A lease contract dated 22/02/2018G to finance the lease of a number of pieces of land in Riyadh ("Fourth Contract").	70,097,943 Saudi riyals	70,097,943 Saudi riyals	73,013,490 Saudi riyals	– The term of the Murabaha Contract starts on 11/06/2018G and ends on 24/06/2024G. – The term of the First Contract starts on 06/11/2016G and ends on 30/01/2020G. – The term of the Second Contract starts on 20/11/2016G and ends on 13/02/2020G. – The term of the Third Contract starts on 06/08/2017G and ends on 25/10/2020G. – The term of the Second Contract starts on 22/02/2018G and ends on 10/03/2021G.
401010008873 General contracting establishment	Real estate finance lease contract	– A lease contract dated 21/12/2015G to finance the lease of a number of pieces of land in Mecca.	75,000,000 Saudi riyals	68,832,407 Saudi riyals	78,464,192 Saudi riyals	– The term of the contract starts on 21/12/2015G and ends on 10/08/2020G.

Customer contract No.	Contract(s)	Brief description	Principal financing amount	Remainder of principal financing amount as at 31/07	Remainder of principal financing amount, plus accrued profit as at 31/07	Term and renewal
401010011453 High-net-worth individuals (Corporate customer)	Real estate finance lease contract	– A lease contract dated 14/12/2017G to finance the lease of a number of villas in Jeddah.	80,000,000 Saudi riyals	60,093,726 Saudi riyals	61,209,167 Saudi riyals	– The term of the contract starts on 14/12/2017G and ends on 13/09/2020G.
401010011255 High-net-worth individuals (Corporate customer)	Three real estate lease contracts	– A lease contract dated 02/02/2016G to finance investment in income-generating assets ("First Contract"), and a lease contract dated 12/5/2016G relating to financing the lease of a warehouse building in Riyadh ("Second Contract"). – A lease contract dated 13/06/2017G to finance the lease of a piece of land in Riyadh ("Third Contract").	85,000,000 Saudi riyals	46,292,709 Saudi riyals	46,642,277 Saudi riyals	– The term of the First Contract starts on 02/02/2016G and ends on 24/01/2021G – The term of the Second Contract starts on 12/05/2016G and ends on 03/05/2021G. – The term of the Third Contract starts on 13/06/2017G and ends on 30/05/2022G.
401010012881 High-net-worth individuals (Corporate customer)	Real estate finance lease contract	– Lease contract dated 28/10/2018G to finance buildings in Jeddah	60,000,000 Saudi riyals	57,033,150 Saudi riyals	57,968,516 Saudi riyals	– The term of the contract starts on 28/10/2018G and ends on 22/10/2025G.
401010008637 High-net-worth individuals (Corporate customer)	Istisna'a contract and Ijara mawsofa fi athemmah contract	– Istisna'a contract dated 26/05/2015G to finance construction and delivery of a real estate unit in Dammam. – An Ijara mawsofa fi athemmah contract to finance off-plan real estate units in Dammam on 10/04/2016G.	70,000,000 Saudi riyals	45,854,572 Saudi riyals	47,090,791 Saudi riyals	– The term of the First Contract starts on 26/05/2015G and ends on 21/02/2023G. – The term of the Second Contract starts on 27/05/2015G and ends on 21/02/2023G.

Customer contract No.	Contract(s)	Brief description	Principal financing amount	Remainder of principal financing amount as at 31/07	Remainder of principal financing amount, plus accrued profit as at 31/07	Term and renewal
401010010599 High-net-worth individuals (Corporate customer)	Real estate finance lease contract	– A lease contract dated 23/11/2016G to finance the lease of a number of blocks and apartments in Jeddah.	74,585,000 Saudi riyals	50,655,852 Saudi riyals	51,527,562 Saudi riyals	– The term of the contract starts on 23/11/2016G and ends on 03/11/2021G.
401010010162 High-net-worth individuals (Corporate customer)	Real estate finance lease contract	– A lease contract dated 30/05/2016G to finance the lease of a residential and commercial building in Mecca.	60,000,000 Saudi riyals	51,931,302 Saudi riyals	58,088,397 Saudi riyals	– The term of the contract starts on 30/05/2016G and ends on 28/02/2021G.
401010008095 High-net-worth individuals (Corporate customer)	Three real estate lease contracts	– A lease contract dated 18/12/2014G to finance the lease of a commercial building in Riyadh ("First Contract"). – A lease contract dated 17/08/2015G to finance the lease of a piece of land in Riyadh ("Second Contract"). – A lease contract dated 06/01/2016G to finance the lease of a commercial building and a piece of land ("Third Contract").	99,000,000 Saudi riyals	36,876,740 Saudi riyals	37,200,223 Saudi riyals	– The term of the First Contract starts on 18/12/2014G and ends on 15/12/2019G. – The term of the Second Contract starts on 17/08/2015G and ends on 09/08/2020G. – The term of the Third Contract starts on 06/01/2016G and ends on 29/12/2020G.
401010005016 High-net-worth individuals (Corporate customer)	Real estate finance lease contract	– A lease contract dated 13/01/2016G to finance two pieces of land in Jeddah	46,800,000 Saudi riyals	40,513,260 Saudi riyals	48,209,854 Saudi riyals	– The term of the contract starts on 13/01/2016G and ends on 22/12/2020G.

Customer contract No.	Contract(s)	Brief description	Principal financing amount	Remainder of principal financing amount as at 31/07	Remainder of principal financing amount, plus accrued profit as at 31/07	Term and renewal
401010006543 High-net-worth individuals (Corporate customer)	Two murabaha contracts and a lease contract	– A murabaha contract dated 25/06/2014G to finance the purchase of a number of residential buildings in Riyadh ("First Contract") – A lease contract dated 28/06/2016G to finance the purchase of two commercial buildings in Riyadh ("Second Contract") – A lease contract dated 12/12/2017G to finance the lease of a number of pieces of land in Riyadh ("Third Contract").	55,000,000 Saudi riyals	35,225,211 Saudi riyals	35,370,994 Saudi riyals	– The term of the First Contract starts on 25/06/2014G and ends on 23/06/2019G. – The term of the Second Contract starts on 28/06/2016G and ends on 23/06/2020G. – The term of the Third Contract starts on 12/12/2017G and ends on 05/12/2024G.
401010010285 High-net-worth individuals (Corporate customer)	Ijara mawsofa fi athemmah contract	– Ijara mawsofa fi athemmah contract dated 10/07/2016G to finance construction and lease of a real estate unit in Mecca.	40,000,000 Saudi riyals	33,085,356 Saudi riyals	34,422,839 Saudi riyals	– The term of the contract starts on 10/07/2016G and ends on 15/06/2023G.
401010010797 High-net-worth individuals (Corporate customer)	Real estate finance lease contract	– A lease contract dated 02/02/2017G to finance the lease of a number of pieces of land in Khobar.	57,127,517 Saudi riyals	35,008,358 Saudi riyals	36,950,163 Saudi riyals	– The term of the contract starts on 02/02/2017G and ends on 24/01/2023G.

Customer contract No.	Contract(s)	Brief description	Principal financing amount	Remainder of principal financing amount as at 31/07	Remainder of principal financing amount, plus accrued profit as at 31/07	Term and renewal
401010007421 High-net-worth individuals (Corporate customer)	Three real estate lease contracts	– A lease contract dated 31/8/2014G to finance the lease of a number of apartments in Jeddah ("First Contract"). – A lease contract dated 01/03/2015G to finance the lease of a piece of land in Jeddah ("Second Contract"). – A lease contract dated 26/06/2016G to finance the lease of a commercial residential building in Jeddah ("Third Contract").	37,000,000 Saudi riyals	33,036,149 Saudi riyals	38,307,854 Saudi riyals	– The term of the First Contract starts on 31/08/2014G and ends on 25/06/2019G. – The term of the Second Contract starts on 10/03/2015G and ends on 02/03/2020G. – The term of the Third Contract starts on 26/06/2016G and ends on 19/06/2021G.
401010012584 High-net-worth individuals (Corporate customer)	Real estate finance lease contract	– A lease contract dated 12/09/2018G to finance the lease of a number of buildings in Riyadh and Jizan	36,000,000 Saudi riyals	29,659,658 Saudi riyals	30,453,826 Saudi riyals	– The term of the contract starts on 12/09/2018G and ends on 06/08/2023G.
401010013769 High-net-worth individuals (Corporate customer)	Ijara mawsofa fi athemmah contract	– Ijara mawsofa fi athemmah contract dated 04/03/2019G to finance a hotel in Jeddah	40,000,000 Saudi riyals	30,000,000 Saudi riyals	30,482,714 Saudi riyals	– The term of the contract starts on 04/03/2019G and ends on 22/02/2026G.
401010011514 High-net-worth individuals (Corporate customer)	Real estate finance lease contract	– A lease contract dated 31/10/2017G to finance the lease of a number of pieces of land in Mecca.	35,000,000 Saudi riyals	26,146,583 Saudi riyals	26,649,148 Saudi riyals	– The term of the contract starts on 31/10/2017G and ends on 16/10/2022G.
401010009867 High-net-worth individuals (Corporate customer)	Real estate finance lease contract	– A lease contract dated 03/03/2016G to finance the lease of a number of commercial buildings in Mecca.	35,000,000 Saudi riyals	28,906,895 Saudi riyals	29,689,752 Saudi riyals	– The term of the contract starts on 31/10/2017G and ends on 16/10/2022G.

Customer contract No.	Contract(s)	Brief description	Principal financing amount	Remainder of principal financing amount as at 31/07	Remainder of principal financing amount, plus accrued profit as at 31/07	Term and renewal
401010013233 High-net-worth individuals (Corporate customer)	Real estate finance lease contract	– A lease contract dated 27/12/2018G to finance a commercial building in Jeddah.	28,000,000 Saudi riyals	14,666,190 Saudi riyals	14,820,796 Saudi riyals	– The term of the contract starts on 27/12/2018G and ends on 04/12/2025G.
401010008057 High-net-worth individuals (Corporate customer)	Three real estate lease contracts	– A lease contract dated 18/12/2014G to finance the lease of a workshop in Riyadh ("First Contract"). – A lease contract dated 09/07/2015G to finance the lease of a piece of land in Riyadh ("Second Contract"). – A lease contract dated 11/07/2018G to finance the lease of warehouses ("Third Contract").	65,000,000 Saudi riyals	20,723,482 Saudi riyals	20,776,278 Saudi riyals	– The term of the First Contract starts on 18/12/2014G and ends on 09/12/2019G. – The term of the Second Contract starts on 09/07/2015G and ends on 07/07/2020G. – The term of the Third Contract starts on 11/07/2018G and ends on 04/07/2023G.
401010012126 High-net-worth individuals (Corporate customer)	Real estate finance lease contract	– A lease contract dated 21/05/2018G to finance the lease of a number of pieces of land in Riyadh.	26,790,000 Saudi riyals	26,286,684 Saudi riyals	26,583,826 Saudi riyals	– The term of the contract starts on 21/05/2018G and ends on 15/05/2025G.
401010011422 High-net-worth individuals (Corporate customer)	Real estate finance lease contract	– A lease contract dated 29/08/2017G to finance the lease of commercial land in Riyadh.	25,000,000 Saudi riyals	25,000,000 Saudi riyals	26,568,198 Saudi riyals	– The term of the contract starts on 29/01/2017G and ends on 21/08/2023G.
401010012775 High-net-worth individuals (Corporate customer)	Real estate finance lease contract	– A lease contract dated 26/09/2018G to finance the lease of an off-plan real estate unit in Jeddah.	50,000,000 Saudi riyals	25,000,000 Saudi riyals	25,250,216 Saudi riyals	– The term of the contract starts on 26/09/2018G and ends on 15/03/2026G.
401010014166 High-net-worth individuals (Corporate customer)	Real estate finance lease contract	– Lease contract dated 21/04/2019G related to a property in Jeddah.	63,000,000 Saudi riyals	63,000,000 Saudi riyals	63,138,702 Saudi riyals	– The term of the contract starts on 21/04/2019G and ends on 21/04/2026G.

Customer contract No.	Contract(s)	Brief description	Principal financing amount	Remainder of principal financing amount as at 31/07	Remainder of principal financing amount, plus accrued profit as at 31/07	Term and renewal
401010010414 High-net-worth individuals (Corporate customer)	Real estate finance lease contract	– A lease contract dated 04/08/2016G to finance the lease of a warehouse in Jeddah ("First Contract"). – A lease contract dated 04/01/2018G to finance the lease of a warehouse in Jeddah ("Second Contract").	44,250,000 Saudi riyals	22,303,338Saudi riyals	23,089,373 Saudi riyals	– The term of the First Contract starts on 04/08/2016G and ends on 28/07/2021G. – The term of the Second Contract starts on 04/01/2018G and ends on 28/12/2022G.
401010011729 High-net-worth individuals (Corporate customer)	Real estate finance lease contract	– A lease contract dated 11/01/2018G to finance the lease of a piece of land in Medina. – A lease contract dated 27/02/2019G to finance the lease of a piece of land in Medina.	45,800,000 Saudi riyals	21,285,417 Saudi riyals	21,369,842 Saudi riyals	– The term of the contract starts on 11/01/2018G and ends on 31/12/2023G. – The term of the contract starts on 27/02/2019G and ends on 14/08/2023G.
401010010742 High-net-worth individuals (Corporate customer)	Real estate finance lease contract	– A lease contract dated 29/01/2017G to finance the lease of a commercial building in Khobar and a number of residential villas in Riyadh.	25,000,000 Saudi riyals	21,780,199 Saudi riyals	22,863,641 Saudi riyals	– The term of the contract starts on 29/01/2017G and ends on 11/01/2024G.
401010013882 High-net-worth individuals (Corporate customer)	Real estate finance lease contract	– A lease contract dated 02/03/2019G to finance the lease of a hotel building in Jeddah ("First Contract"). – An off-plan real estate unit lease contract dated 02/03/2019G to finance the lease of a hotel building in Jeddah ("Second Contract").	25,500,000 Saudi riyals	21,014,026 Saudi riyals	21,602,852 Saudi riyals	– The term of the First Contract starts on 02/03/2019G and ends on 08/03/2026G. – The term of the Second Contract starts on 02/03/2019G and ends on 08/03/2026G.

Customer contract No.	Contract(s)	Brief description	Principal financing amount	Remainder of principal financing amount as at 31/07	Remainder of principal financing amount, plus accrued profit as at 31/07	Term and renewal
401010013226 High-net-worth individuals (Corporate customer)	Real estate finance lease contract	– A lease contract dated 13/12/2018G to finance a commercial building in Jeddah.	20,000,000 Saudi riyals	20,000,000 Saudi riyals	20,977,714 Saudi riyals	– The term of the contract starts on 13/12/2018G and ends on 14/12/2025G.
401010013707 High-net-worth individuals (Corporate customer)	Real estate finance lease contract	– An off-plan real estate unit lease contract dated 04/03/2019G to finance the establishment of a celebration hall in Jeddah.	40,000,000 Saudi riyals	40,000,000 Saudi riyals	40,416,485 Saudi riyals	– The term of the contract starts on 04/03/2019G and ends on 17/02/2026G.
401010013684 High-net-worth individuals (Corporate customer)	Real estate finance lease contract and a land lease contract	– A lease contract dated 08/01/2019G to finance the lease of a residential building in Riyadh ("First Contract"). – A land lease contract dated 08/01/2019G to finance the lease of a hotel building in Riyadh ("Second Contract").	19,700,000 Saudi riyals	18,976,067 Saudi riyals	19,254,152 Saudi riyals	– The term of the First Contract starts on 08/01/2019G and ends on 31/12/2023G – The term of the Second Contract starts on 26/02/2019G and ends on 17/02/2026G.
401010006109 High-net-worth individuals (Corporate customer)	Real estate finance lease contract	– A lease contract dated 29/09/2013G to finance the lease of a number of buildings in Jeddah.	52,792,440 Saudi riyals	19,581,495 Saudi riyals	20,090,220 Saudi riyals	– The term of the contract starts on 29/09/2013G and ends on 27/09/2020G.
401010010568 High-net-worth individuals (Corporate customer)	Real estate finance lease contract	– A lease contract dated 22/11/2016G to finance the lease of a number of pieces of land in Riyadh.	25,000,000 Saudi riyals	18,189,790 Saudi riyals	18,355,649 Saudi riyals	– The term of the contract starts on 22/11/2016G and ends on 29/05/2023G.
402010004085 High-net-worth individuals (Corporate customer)	Real estate finance lease contract	– A lease contract dated 22/02/2018G to finance the lease of a commercial building in Jeddah.	19,125,000 Saudi riyals	19,125,000 Saudi riyals	19,866,355 Saudi riyals	– The term of the contract starts on 22/02/2018G and ends on 23/02/2025G.
401010011989 High-net-worth individuals (Corporate customer)	Land lease contract	– A lease contract dated 12/04/2018G to finance the lease of a piece of land in Riyadh.	20,000,000 Saudi riyals	17,924,833 Saudi riyals	18,365,273 Saudi riyals	– The term of the contract starts on 12/04/2018G and ends on 01/04/2025G.

Customer contract No.	Contract(s)	Brief description	Principal financing amount	Remainder of principal financing amount as at 31/07	Remainder of principal financing amount, plus accrued profit as at 31/07	Term and renewal
401010008521 High-net-worth individuals (Corporate customer)	Real estate finance lease contract	– A lease contract dated 22/04/2015G to finance the lease of a number of pieces of land in Riyadh ("First Contract"). – A lease contract dated 18/05/2016G to finance the lease of a number of residential villas in Riyadh ("Second Contract").	24,000,000 Saudi riyals	17,720,382 Saudi riyals	18,501,034 Saudi riyals	– The term of the First Contract starts on 22/04/2015G and ends on 16/04/2020G. – The term of the Third Contract starts on 18/05/2016G and ends on 05/05/2021G.
401010013202 High-net-worth individuals (Corporate customer)	Real estate finance lease contract	– A lease contract dated 09/12/2018G to finance the lease of a commercial building and ground floor in Mecca and Jeddah.	17,600,000 Saudi riyals	16,184,309 Saudi riyals	16,311,434 Saudi riyals	– The term of the contract starts on 09/12/2018G and ends on 03/12/2023G.
401010013196 High-net-worth individuals (Corporate customer)	Real estate finance lease contract	– A lease contract dated 11/12/2018G to finance the lease of a ground floor in Riyadh.	18,000,000 Saudi riyals	16,590,083 Saudi riyals	16,720,701 Saudi riyals	– The term of the contract starts on 11/12/2018G and ends on 03/12/2023G.
401010014302 High-net-worth individuals (Corporate customer)	Real estate finance lease contract	– A lease contract dated 12/12/2017G to finance lease of medical centers in Riyadh.	49,000,000 Saudi riyals	47,071,429 Saudi riyals	46,808,792 Saudi riyals	– The term of the contract starts on 12/12/2017G and ends on 28/11/2024G.
401010007452 High-net-worth individuals (Corporate customer)	Land lease contract	– A lease contract dated 10/07/2014G to finance the lease of a piece of land in Medina.	35,000,000 Saudi riyals	14,334,665 Saudi riyals	14,496,622 Saudi riyals	– The term of the contract starts on 10/07/2014G and ends on 02/07/2019G.
401010011217 High-net-worth individuals (Corporate customer)	Real estate finance lease contract	– A lease contract dated 01/06/2017G to finance the lease of a number of buildings in Riyadh.	20,000,000 Saudi riyals	14,630,746 Saudi riyals	14,176,584 Saudi riyals	– The term of the contract starts on 01/06/2017G and ends on 22/05/2023G.
401010008156 High-net-worth individuals (Corporate customer)	Real estate finance lease contract	– A lease contract dated 28/12/2014G to finance the lease of a building in Mecca.	35,900,000 Saudi riyals	14,665,365 Saudi riyals	14,774,893 Saudi riyals	– The term of the contract starts on 28/12/2014G and ends on 22/12/2019G.

Customer contract No.	Contract(s)	Brief description	Principal financing amount	Remainder of principal financing amount as at 31/07	Remainder of principal financing amount, plus accrued profit as at 31/07	Term and renewal
401010007094 High-net-worth individuals (Corporate customer)	Real estate finance lease contract	– A lease contract dated 30/04/2014G to finance the lease of a furnished hotel apartment building in Khobar.	17,186,918 Saudi riyals	15,472,555 Saudi riyals	16,219,652 Saudi riyals	– The term of the contract starts on 30/04/2014G and ends on 28/04/2019G.
401010012874 High-net-worth individuals (Corporate customer)	Real estate finance lease contract	– A lease contract dated 22/10/2018G to finance the lease of a commercial/residential building in Riyadh.	15,000,000 Saudi riyals	14,234,641 Saudi riyals	14,556,069 Saudi riyals	– The term of the contract starts on 22/10/2018G and ends on 07/10/2025G.
401010012782 High-net-worth individuals (Corporate customer)	Real estate finance lease contract	– A lease contract dated 24/09/2018G to finance the lease of a piece of land in Jizan	14,910,000 Saudi riyals	14,910,000 Saudi riyals	15,199,942 Saudi riyals	– The term of the contract starts on 24/09/2018G and ends on 17/09/2023G.
401010014326 High-net-worth individuals (Corporate customer)	Real estate finance lease contract	– A lease contract dated 13/05/2019G to finance the lease of a piece of land in Riyadh.	20,000,000 Saudi riyals	20,000,000 Saudi riyals	20,475,000 Saudi riyals	– The term of the contract starts on 13/05/2019G and ends on 03/05/2026G.
401010011705 High-net-worth individuals (Corporate customer)	Real estate finance lease contract	– A lease contract dated 02/01/2018G to finance a piece of land in Jeddah ("First Contract") – A lease contract dated 10/06/2018G to finance the lease of a warehouse in Jeddah ("Second Contract")	16,500,000 Saudi riyals	13,192,889 Saudi riyals	13,125,040 Saudi riyals	– The term of the First Contract starts on 02/01/2018G and ends on 26/12/2022G. – The term of the Second Contract starts on 10/06/2018G and ends on 15/05/2025G.
401010010988 Therapeutic services company	Real estate finance lease contract	– A lease contract dated 23/03/2017G to finance a lease in Jeddah ("First Contract") – A lease contract dated 30/10/2018G to finance a lease in Jeddah ("Second Contract")	15,000,000 Saudi riyals	12,788,040 Saudi riyals	13,638,138 Saudi riyals	– The term of the First Contract starts on 23/03/2017G and ends on 06/03/2023G. The term of the Second Contract starts on 30/10/2018G and ends on 30/10/2024G.

Customer contract No.	Contract(s)	Brief description	Principal financing amount	Remainder of principal financing amount as at 31/07	Remainder of principal financing amount, plus accrued profit as at 31/07	Term and renewal
401010011538 High-net-worth individuals (Corporate customer)	Three real estate lease contracts	– A lease contract dated 09/11/2017G to finance the lease of a piece of land in Riyadh ("First Contract") – A lease contract dated 16/08/2018G to finance the lease of a piece of land in Riyadh ("Second Contract") – A lease contract dated 28/11/2018G to finance the lease of a piece of land in Riyadh ("Third Contract")	18,700,000 Saudi riyals	17,393,318 Saudi riyals	17,584,647 Saudi riyals	– The term of the First Contract starts on 09/11/2017G and ends on 02/11/2021G. – The term of the Second Contract starts on 16/08/2018G and ends on 06/08/2023G. – The term of the Third Contract starts on 28/11/2018G and ends on 21/11/2022G.

* Customers' names are not disclosed due to the confidentiality of customer financial information, as required under the financing agreements and SAMA regulations. The limitations of the Company's IT system require that high-net-worth individuals be classified as Corporate customers.

12.5.2 Financing Portfolio Sale Agreements

Table (187): Summary of financing portfolio sale agreements

Name of agreement	Parties	Brief description	Value	Term and renewal
General lease-to-own agreement	The Company (as the Seller) and The Saudi Investment Bank (as the Buyer)	– The Company entered into this general agreement on 17/5/2016G for the purchase of a number of real estate properties owned by the Company and leased under lease-to-own agreements with a number of the Company's customers, whereby the Buyer collects rent from the Company's customers. – In addition to the general agreement, the Company entered into an agency agreement on 18/5/2016G as part of the same transaction, whereby it collects, receives and delivers the rent to the Buyer in addition to managing and maintaining the real estate. – On 6/6/2016G, the Company entered into a real estate sale contract, that identified 14 real estate properties to be sold to the Buyer under the above general agreement and set out some additional conditions. – Non-recourse contract	The sale value of the fourteen (14) real estate properties identified in the real estate sale contract is SAR 10,644,372.	One year, commencing from the date of agreement, to be renewed unless either party notifies the other of its intention not to renew it with a 30-day prior notice.

Name of agreement	Parties	Brief description	Value	Term and renewal
Portfolio purchase agreement	The Company (as the Seller) and Saudi Real Estate Refinance Company (as the Buyer)	– On 10/5/2018G, the Company entered into a portfolio purchase agreement related to the purchase of properties owned by the Company and leased to its customers in addition to the rights arising from the lease contracts for these properties. – On the same date, the Company entered into a service agreement whereby it acts as a legal agent of the Buyer in respect to management activities for the properties of the purchased portfolio and the related contracts. The Company also concluded a land purchase agreement including terms related to completion of the sale of the portfolio properties identified. – Non-recourse contract	As per the portfolio purchase agreement, the sale price of the portfolio properties is SAR 104,650,708.	The agreement term is indefinite, and there is no mechanism for renewal.
Portfolio purchase agreement	The Company (as the Seller) and Saudi Real Estate Refinance Company (as the Buyer)	– On 06/03/2019G, the Company entered into a portfolio purchase agreement related to the purchase of properties owned by the Company and leased to its customers in addition to the rights arising from the lease contracts for these properties. – On the same date, the Company entered into a service agreement whereby it acts as a legal agent of the Buyer in respect to management activities for the properties of the purchased portfolio and the related contracts. The Company also concluded a land purchase agreement, including terms related to completion of the sale of the portfolio properties identified. – Non-recourse contract	As per the portfolio purchase agreement, the sale price of the portfolio properties is SAR 120,638,477.	The agreement term is indefinite, and there is no mechanism for renewal.

Source: The Company.

A. General lease-to-own agreement with The Saudi Investment Bank

The Company entered into a number of agreements, which together constitute a single lease-to-own agreement, as defined below: (a) a general lease-to-own agreement dated 17/5/2016G that sets the terms and conditions for sale of properties owned by the Company and leased to its customers in accordance with lease-to-own agreements and all associated contractual rights to The Saudi Investment Bank; (b) an agency agreement dated 18/5/2016G, whereby the Company collects and receives rents and pays the same to the Buyer, in addition to managing and maintaining property; (c) a property sale contract dated 6/6/2016G, which identifies all fourteen (14) properties sold, the title deed number of each property and the names of lessees and their contract numbers, with the total sale price amounting to SAR 10,644,372.

The term of the agreement is one year, commencing from the date the agreement is signed, to be renewed unless either party notifies the other of its intention not to renew it with a 30-day prior notice. The Buyer is entitled to the stipulated right of cancellation within the period specified in the property sale contract. Accordingly, the Buyer may annul the contract and return the properties sold during this period. In this event, the Buyer will recover the amounts it has paid after deducting any rental returns obtained thereby. The right is terminated upon expiry of the period thereof, and the Buyer may not dispose of the properties during such period.

The Buyer may terminate the general lease-to-own agreement if (a) the Company delays conveyance of the property to the name of the Buyer; (b) all of the guarantees set out under the lease contract cannot be transferred to the

Buyer; and (c) the Seller breaches any obligation under this agreement. It should be noted that termination of the property sale contract shall not result in termination of this agreement, unless the Buyer so requires.

The Seller undertakes to transfer the title deeds within a maximum of two months after the date of the sale contract and all contract-related title deeds have been transferred as shown in Table ([188]) "**Status of Title Deed Transfer for Sold Portfolios as of 30/06/2019G**".

This agreement and all related documents are governed by the applicable laws of the Kingdom of Saudi Arabia. Disputes shall be referred to arbitration in accordance with the applicable arbitration regulations of the Kingdom of Saudi Arabia if no amicable settlement is reached.

B. Portfolio purchase agreement with Saudi Real Estate Refinance Company

On 10/5/2018G, the Company entered into a number of agreements, which together constitute a single agreement for the purchase of a real estate portfolio leased to corporate customers. These are agreements are as follows: (a) a portfolio purchase agreement for the purchase of real estate owned by the Company and leased to its customers, in addition to the rights arising from the Ijara contracts for such real estate; (b) a service agreement, under which the Company, as a legal agent of the Buyer, collects rent payments from customers and carries out administrative work related to the purchased portfolio real estate and the related contracts; and (c) a land purchase agreement stipulating the terms for the completion of the sale of the portfolio properties identified. Under the portfolio purchase agreement, the Company was to receive a fully-paid financial consideration of SAR 104,650,708.46 within 10 days after the sale date and delivery of several required documents by the Company. The Company issued a promissory note for the full value of said consideration to the Buyer as a guarantee to the Buyer to transfer all the title deeds thereto. The Buyer does not have the right to deny the promissory note if transfer is delayed or unfulfilled. Further, there is no deadline for transferring all title deeds to the Buyer. However, when the Buyer notifies the Seller that it wishes to have all title deeds transferred and conveyed, the Seller shall issue an agency to the Buyer to convey the title deeds sold thereto.

In the event that the Company does not comply with its obligations in connection with the portfolio properties, which could have a material adverse impact on the value of the portfolio properties (impairment of 10% as determined by at least two independent valuators), and the Company could have, and did not, rectify the breach within 21 days after the Buyer notifies the Company of such breach, the Buyer may sell, re-transfer or re-assign the portfolio real estate affected by the Company's breach. In this case, the Company shall: (a) pay, in cash to the Buyer, 100% of the original amount under the lease contract of the relevant real estate, in addition to the accrued lease payments that are not due under the lease contract, net any undue lease payments provided in advance to the Buyer, plus any other amounts due and any reasonable costs incurred by the Buyer with respect to the purchase; or (b) transfer alternative real estate to the Buyer with the Company's full rights and interests with respect to such title deeds.

This agreement and all related documents are governed by the applicable laws of the Kingdom of Saudi Arabia and any dispute arising therefrom shall be referred to the competent courts of the Kingdom.

C. Portfolio purchase agreement with Saudi Real Estate Refinance Company

On 06/03/2019G, the Company entered into a number of agreements, which together constitute a single agreement for the purchase of a real estate portfolio leased to corporate customers. These are agreements are as follows: (a) a portfolio purchase agreement for the purchase of real estate owned by the Company and leased to its customers, in addition to the rights arising from the Ijara contracts for such real estate; (b) a service agreement, under which the Company, as a legal agent of the Buyer, collects rent payments from customers and carries out administrative work related to the purchased portfolio real estate and the related contracts; and (c) a land purchase agreement stipulating the terms for the completion of the sale of the portfolio properties identified. Under the portfolio purchase agreement, the Company was to receive a fully-paid financial consideration of SAR 120,638,477 within 10 days after the sale date and delivery of several required documents by the Company. The Company issued a promissory note for the full value of the said consideration to the Buyer as a guarantee to the Buyer to transfer all the title deeds thereto. The Buyer does not have the right to deny the promissory note if transfer is delayed or unfulfilled. Further, there is no deadline for transferring all title deeds to the Buyer. However, when the Buyer notifies the Seller that it wishes to have all title deeds transferred and conveyed, the Seller shall issue an agency to the Buyer to convey the title deeds sold thereto.

In the event that the Company does not comply with its obligations in connection with the portfolio real estate, and the Company could have, and did not, rectify the breach within 45 days after the Buyer notifies the Company of such breach, the Buyer may sell, re-transfer or re-assign the portfolio real estate affected by the Company's breach. In this case, the Company shall: (a) pay, in cash to the Buyer, 100% of the original amount under the lease contract of the relevant real estate, in addition to the accrued lease payments that are not due under the lease contract, net any undue lease payments provided in advance to the buyer, plus any other amounts due and any reasonable costs incurred by the Buyer with respect to the purchase; or (b) transfer ownership to the Buyer with the Company's full rights and interests with respect to such title deeds.

This agreement and all related documents are governed by the applicable laws of the Kingdom of Saudi Arabia and any dispute arising therefrom shall be referred to the competent courts of the Kingdom.

Table (188): Status of title deed transfer for sold portfolios as of 30/06/2019G

Portfolio sold to	Number of portfolio title deeds (Title deed)	Number of title deeds transferred (Title deed)	Number of title deeds to be transferred (Title deed)
The Saudi Investment Bank	14	14	0
Saudi Real Estate Refinance Company 10/5/2018G	168	145	23
Saudi Real Estate Refinance Company 06/03/2019G	157	123	34
Total	**339**	**282**	**57**

12.5.3 Summary of the Real Estate Financing Framework Agreement for the Off-plan Product with REDF

On 31/01/2019G, the Company entered into a real estate financing framework agreement for an off-plan product with the Real Estate Development Fund (REDF) and Saudi Real Estate Refinance Company. Under this agreement, REDF authorizes the Company to enter into an Istisna and purchase framework agreement with REDF and a qualified off-plan product developer. The Company buys these residential units from the developer and provides them as real estate financing for off-plan products in the form of financing Ijara mawsofa fi athema with a promise given to eligible customer to own the real estate at the end of the lease period Under this agreement, REDF will sell to the Real Estate Refinance Company the portfolio real estate for SAR 600.0 million or the value of the Ijara contracts as of the end of the six-month period after the contract date (whichever is earlier) following the completion of construction works and receipt of relevant residential units by eligible customers. In addition to the main agreement, the Company entered into an agency and services agreement with REDF as part of the same transaction.

12.5.4 Summary of the Advance Payment Program (Soft Loan) Agreement with REDF

On 16/4/1440H (corresponding to 23/12/2018G), the Company entered into an advance payment program agreement. Under this agreement, the Company provides financing products to eligible beneficiaries as determined by REDF. REDF provides housing support to eligible beneficiaries under the advance payment program through a soft loan provided to cover the advance payment due from the beneficiary. The term of the agreement is one Gregorian year, to be automatically renewed for a similar period under the same terms, unless either party expresses its wish not to renew the agreement by a written letter addressed to the other party three (3) Gregorian months prior to the end of the agreement.

12.5.5 Lead Tracking Application Use Agreement with REDF

On 17/05/1440H (corresponding to 23/01/2019G), the Company entered into an agreement for use of the Lead Tracking Application. REDF owns "Lead Tracking Application", an application that performs a comprehensive analysis of the beneficiaries' credit status and helps them find out the best solutions and financing offers available to them at the financing authorities. Financiers or beneficiaries who download the application are subject to the terms and conditions thereof. The purpose of the Lead Tracking Application use agreement is to regulate the relationship between REDF and the Company with regard to the services and features available in the application, such as the user's authorization, the method of transferring opportunities, the processing of requests and the servicing of faults. The term of the agreement is one Gregorian year, to be automatically renewed for a similar period under the same terms, unless either party expresses its wish not to renew the agreement by a written letter addressed to the other party three (3) Gregorian months prior to the end of the agreement.

12.5.6 Investment Partnership Agreements

Table (189): Summary of investment partnership agreements as of 31/07/2019G

Name of agreement	Parties	Brief description	Share capital and equity	Term and renewal	Status of agreement
Investment partnership agreement	The Company (as an Investment Partner) and Dar Wa Emaar Real Estate Investment & Development Company (as an Investment Partner).	On 6/3/2013G, the Company entered into this agreement and a development agreement with the Investment Partner. The Company is to finance the purchase of real estate and the Investment Partner is to develop the real estate. The developed real estate and its profits shall be jointly owned and distributed among the two parties.	The share capital of the project is SAR 41,430,000. The Company owns 90% of the project and its Partner owns 10%. Ownership of the project site is registered in the name of both parties in the title deed.	Thirty-three (33) months from the start date of the project, which shall be the later of the signing date of the investment partnership agreement (15/02/2013G) or the development agreement. The agreement may be renewed for six (6) months upon mutual written agreement by the parties.	Effective

Source: The Company.

A. Investment partnership agreement with Dar Wa Emaar Real Estate Investment & Development Company

On 6/3/2013G, the Company entered into an investment partnership agreement with Dar Wa Emaar Real Estate Investment & Development Company, with a share capital of SAR 41,430,000, in addition to development agreements. The Company is to finance the purchase of real estate and the Investment Partner is to develop the real estate. The developed real estate and its profits shall be jointly owned and distributed among the two parties according to the agreed ownership percentage. The term of the agreement is thirty-three (33) months from the start date of the project, which shall be the later of the signing date of the investment partnership agreement or the development agreement. The agreement may be renewed for six (6) months upon mutual written agreement by the parties.

Both agreements may be terminated by either party immediately upon written notice if: (a) the other party has materially breached the investment partnership agreement, the development agreement or any undertakings agreed upon by the parties, and that party fails to rectify the situation within 60 days after notification of such defect and request to rectify the situation; or (b) the other party is unable to pay its foreign debts or any actions are taken against it in connection with such debts, including voluntary liquidation, restructuring, etc. In case of termination by either party in accordance with the foregoing, the parties must agree to liquidate the project and distribute the profits in proportion to their respective stake in the share capital at the liquidation date. It should be noted that the Company is committed to restructuring this investment partnership in order to separate it from its business or exit from it in accordance with Law on Supervision of Finance Companies and its Implementing Regulations.

12.5.7 The Company's financing and related hedging agreements as of 31/07/2019G

The Company has entered into nine financing agreements. Below is a summary of these agreements that could affect the decision of Subscribers to invest in the Offer Shares. The below summary of the agreements and contracts includes the material terms and conditions of such agreements and contracts, rather than all terms and conditions. The summary cannot be deemed an alternative to the terms and conditions thereof. The Company has obtained a no objection letter from the relevant banks in connection with the Offering. The following table shows the financing agreements entered into by the Company:

Table (190): Summary of the Company's financing and related hedging agreements as of 31/07/2019G

Lender	Type of financing	Total Financing amount (SAR)	Availability period	Hedge cap	Contract status
Bank AlJazira	Credit facilities agreement in accordance with Islamic finance	330,000,000	– Facilities are available from 4/7/1437H (corresponding to 11/4/2016G) for an unspecified period – The agreement was amended on 31/01/2018G and 02/09/2018G.	30,000,000 Saudi riyals	Effective
GIB	Murabaha purchase financing agreement	435,000,000	– Facilities are available from 6/9/1438H (corresponding to 1/6/2017G) to 27/3/2019G – The agreement was amended on 19/09/2018G.	18,750,000 Saudi riyals	Expired, being renewed
Bank Albilad	Financing facilities agreement	150,000,000	The agreement is effective from 21/07/2019G to 19/06/2020G	No hedging agreement	Effective
SABB	Islamic banking facilities	200,000,000	– The agreement is effective from 09/03/2015G to 31/12/2019G – The agreement was renewed on 03/01/2017G and 02/11/2017G.	25,000,000 Saudi riyals	Effective
Samba Financial Group	Term Murabaha facilities agreement	500,000,000	The agreement is effective from 23/07/2018G to 30/06/2019G	There is no separate hedging agreement, but the credit facility agreement provides for a hedging cap of SAR 25,000,000	Expired, being renewed
The Saudi Investment Bank	Sharia-compliant credit facilities agreement	887,500,000	The agreement is effective from 08/11/2018G to 31/08/2019G	37,500,000 Saudi riyals	Effective
Alawwal Bank	Islamic financing agreement with Alawwal Bank	500,000,000	– The agreement is effective from 22/01/2017G to 10/7/2019G – The agreement was amended on 14/08/2017G and 07/05/2018G.	50,000,000 Saudi riyals	Expired, being renewed
Al Rajhi Capital	Facilities agreement with Al Rajhi Bank	250,000,000	The agreement is effective for 36 months as of 29/01/2018G	No hedging agreement	Effective
NCB	Trade financing and banking services agreement	400,000,000	The agreement is effective from 23/05/2018G to 30/11/2022G	20,000,000 Saudi riyals	Effective

Source: The Company.

A. Credit facilities agreement with Bank AlJazira

On 4/7/1437H (corresponding to 11/4/2016G), the Company entered into a credit facility agreement with Bank AlJazira, as amended on 2/9/2018G, to provide: (a) a securitization-based credit sale limit for financing of working capital (SAR 300,000,000); and (b) a foreign exchange limit and/or limit for transactions in various treasury products at Bank AlJazira (SAR 30,000,000). Total amounts used from both limits must not exceed SAR 330,000,000 at all times.

The Company undertakes to open a special account with Bank AlJazira and deposit income from receivables in that account. The Company may reuse the amount of financing granted thereto, after payment of not less than 10% of the amounts used by the Company. If the Company fails to pay installments on time within a maximum of 90 days, all installments shall fall due and payable. The Company shall pay a fine of 15% of any installment due if it fails to pay its dues to the Bank on time after being notified twice of the maturity date.

The Company provided the following guarantees to Bank AlJazira:

1. A promissory note of SAR 330,000,000; and
2. Waiver to the Bank of all returns of accounts receivable for corporate and high-net-worth individual customers as accepted by the Bank, provided such is made in accordance with the form and content acceptable to the Bank and covers a specified percentage of the total amount used from the limits granted to the Company.

The Company also made financial commitments, including:

1. Maintaining a debt-to-equity (D/E) ratio within the range of (2.75:1);
2. Maintaining a trading ratio of at least (1:1); and
3. Providing the Bank with additional financial accounts, after assigning them to the Bank, in the event of any difficulties in collecting the accounts waived to the Bank or late installments, provided such are in the form acceptable to the Bank.

This agreement requires the prior approval of Bank AlJazira in the event of a change in ownership, including the public offering. On 28/8/2018G, the Company notified Bank AlJazira of its wish to offer its shares and the Bank provided the Company with a no objection letter. This agreement and all related documents are governed by the applicable laws of the Kingdom of Saudi Arabia. Disputes arising therefrom shall be referred to the Committee for Settlement of Banking Disputes at SAMA.

B. Murabaha purchase financing agreement with GIB and associated hedging agreement

On 6/9/1438H (corresponding to 1/6/2017G), the Company entered into a Murabaha purchase financing agreement, amended on 19/9/2018G, with Gulf International Bank (GIB). At the request of the Company, the Bank is to purchase metals such as copper, zinc, iron and others at cost through direct delivery and sell such metals to the Company under deferred payment terms, provided that the Company pays the cost price plus Murabaha profit, taking into account the following limits: (a) medium-term financing limit to finance lease accounts with a maximum of SAR 416,250,000 to fall due and payable within 42 months after the first withdrawal date; and (b) guarantee facility to finance the issuance of payment guarantees to GAZT with a maximum of SAR 43,537,659. Work is underway to renew the agreement, which expired on 27/03/2019G.

The Company provided the following guarantees:

1. A waiver of lease receivables, equivalent at all times to at least a specified percentage of the finance amount. The customer must at all times maintain that percentage of the total outstanding financing amount;
2. Confirmation that there are no charges relating to any current or future assets and undertaking to maintain coverage of a specified percentage of the financing amount. If it fails to do so, the Company undertakes to increase the waived lease value or repay part of the financing early; and
3. A promissory note of SAR 459,787,659.

The Company also made financial commitments, including:

1. The ratio of total liabilities to total net tangible worth of Shareholders shall not exceed 3.0: 1.0
2. The ratio of current assets to current liabilities shall not be less than 1.0:1.0
3. The net tangible worth of the Shareholders shall not be less than SAR 800,000,000.

This agreement requires GIB to be notified in the event of a change in ownership, including a public offering. On 28/8/2018G, the Company notified GIB of its intention to offer its shares. This agreement and all related documents are governed by the applicable laws of the Kingdom of Saudi Arabia. Disputes arising therefrom shall be referred to the Committee for Settlement of Banking Disputes at SAMA if no amicable settlement is reached.

The Company also entered into a hedging agreement with GIB in accordance with ISDA/IFM forms. The current coverage is SAR 18,750,000. This amount is included in the above-mentioned financing limit for GIB.

C. Financing facility agreement with Bank Albilad

On 17/5/1438H (corresponding to 14/2/2017G), the Company entered into a financing facility agreement, amended on 21/5/2018G, with Bank Albilad to grant a revolving credit sale to finance working capital requirements in the amount of SAR 150,000,000 over three years in quarterly installments. The agreements has been renewed on 21/07/2019G, which will be valid until 19/06/2020G.

The Company provided the following guarantees:

1. Waiver of revenues of the Company's customers from its financing portfolio to the Bank, provided that such covers at least 125% of the existing financing amount and that the concentration in revenue from each customer should not exceed 25% of the waived portfolio;
2. Undertaking not to create any mortgage, concession or right on the Company's movable or fixed assets previously provided as collateral to Bank Albilad;
3. In the event that the Company sells part of the receivables included in the waived portfolio to the Bank to another party, the company undertakes to replace the contracts sold with similar quality contracts to the Bank and in accordance with the Bank's terms
4. A promissory note of SAR 156,236,000; and
5. Undertaking to provide additional collateral when collateral is impaired upon first notification from Bank Albilad.

The Company also made financial commitments, including:

1. Providing the Bank with all information related to the financial position of its activities and any change in its financial position;
2. Providing the Bank with the financial statements and final accounts within a maximum period of 90 days after the end of the financial year; and
3. The leverage ratio shall not exceed 3:1.

This agreement requires Bank Albilad to be notified in the event of a change in ownership, including a public offering. On 28/8/2018G, the Company notified Bank Albilad of its intention to offer its shares. The Bank provided the Company with a no objection letter. This agreement and all related documents are governed by the applicable laws of the Kingdom of Saudi Arabia. Disputes arising therefrom shall be referred to the competent judicial authorities of the Kingdom.

D. Islamic banking facility agreement with Saudi British Bank (SABB) and associated hedging agreement

On 9/3/2015G, the Company entered into an Islamic banking facility agreement with SABB, which was renewed on 2/11/2017G. It also entered into other financing documents, with each constituting a full agreement to provide the following: (a) Murabaha mineral-based foliation financing of up to SAR 175,000,000 for the purpose of financing the Company's requirements where the term of each Murabaha transaction does not exceed 3 years; and (b) hedging based on the promise structure (Islamic banking hedging structure) for the purpose of hedging against price volatility, covering an estimated risk limit of SAR 25,000,000. The agreement ends on 31/12/2019G.

The Company provided the following guarantees:

1. A letter of undertaking to transfer part of the cash flows from the Company's operations to the Company's account at SABB;
2. A letter of undertaking to guarantee the facilities by assigning receivables, provided that it covers a specified percentage and is transferred to the Company's account at SABB; and
3. A promissory note of SAR 200,000,000.

The Company also made financial commitments, including:

1. The total debt to tangible net worth ratio shall not exceed 3:1;
2. Undertaking to deposit all SABB-financed installments to the Company's account at SABB; and
3. The portfolio of contracts covering withdrawals from securitization Murabaha financing (125% of contract proceeds) allocated to SABB must not contain irregular/overdue contracts. If included, they should be canceled.

This agreement requires SABB to be notified of any change in ownership, if any, including the public offering. On 28/8/2018G, the Company notified SABB of its intention to offer its shares and the Company received a no objection letter from SABB.

The Company also entered into a main hedging agreement with SABB similar to the ISDA models. The current coverage is SAR 25,000,000.

E. Term murabaha facility agreement with Samba Financial Group (Samba)

On 16/10/2017G, the Company entered into a term murabaha facility agreement with Samba and the facilities were extended under a new agreement dated 23/7/2018G to provide Murabaha facilities of SAR 500,000,000 by purchasing a commodity and selling it at a deferred price in a Sharia-compliant manner. Work is underway to renew the agreement, which expired on 30/06/2019G.

The Company provided the following guarantees:

1. A waiver to Samba of receivables covering a specified percentage of the amounts due under the agreement provided that the assignments are acceptable to Samba;
2. Undertaking not to transfer, lease, assign or dispose of all or part of the Company's business and assets, except for the sale of accounts receivable arising from real estate contracts in the ordinary course of the Company's business and undertaking not to create or maintain any mortgage on any of the Company's assets during the term of the agreement.
3. A promissory note of SAR 500,000,000.

The Company also made financial commitments, including:

1. Net assets shall not be less than SAR 900,000,000 at any time
2. The leverage ratio shall not exceed 3: 1
3. The total current assets to current debt ratio shall not exceed 1:1

This agreement requires Samba to be notified of any change to ownership, if any, including the public offering. On 28/8/2018G, the Company notified Samba of its intention to offer its shares. This agreement and all related documents are governed by the applicable laws of the Kingdom of Saudi Arabia. Disputes arising therefrom shall be referred to the Committee for Settlement of Banking Disputes at SAMA.

F. Sharia-compliant credit facilities agreement with The Saudi Investment Bank and the associated hedging agreement

On 08/11/2018G, the Company entered into a credit facility agreement with The Saudi Investment Bank to provide the following limits: (a) Murabaha financing for the purchase and sale of goods for the purpose of financing long-term public investments of SAR 850,000,000 for up to 5 years per Murabaha transaction; (b) guarantees/letters of guarantee to issue payment guarantees of SAR 39,408,449 to be submitted to GAZT; and (c) hedging against fluctuations in Sharia-compliant profit margin covering SAR 37,500,000.

The Company provided the following guarantees:

1. A general waiver to The Saudi Investment Bank for the Company's receivables acceptable to the Bank (provided that they are not mortgaged, are not waived to any third party financing the Company, are not overdue and their lives do not exceed 60 days of debt terms), the value of which covers a specified percentage of the total outstanding amounts under the agreement.
2. Undertaking that there are no dues from the Company's assets or revenues and that mortgage will not be made or allowed for all the Company's assets and revenues.

3. A promissory note of SAR 926,908,449.

The Company also made financial commitments, including:

1. The Company's leverage ratio shall not exceed 3:1
2. The minimum capital adequacy ratio for risk assets is 8%
3. The minimum capital adequacy ratio for Class I risk assets is 4%

This agreement requires The Saudi Investment Bank to be notified of any change in ownership, if any, including the public offering. Although the Saudi Investment Bank agreed to the change in ownership as a shareholder at the Company, the Company officially notified it thereof on 28/8/2018G. The Company received a no objection letter from The Saudi Investment Bank. This agreement and all related documents are governed by the applicable laws of the Kingdom of Saudi Arabia. Disputes arising therefrom shall be referred to the competent courts of the Kingdom, including the Committee for Settlement of Banking Disputes at SAMA.

The Company also entered into a hedging agreement with The Saudi Investment Bank in accordance with ISDA models. The current coverage is SAR 37,500,000.

G. Islamic financing agreement with Alawwal Bank and associated hedging agreement

On 22/1/2017G, the Company entered into an Islamic financing agreement with Alawwal Bank, which was amended on 7/5/2018G. It also made other agreements, all of which together constitute a full agreement. Under these agreements, the Bank provides the following limits: (a) revolving accounts receivable financing of up to SAR 450,000,000 within 36 months; and (b) products to protect against financing cost fluctuations at a maximum amount of SAR 50,000,000 within 36 months. Work is underway to renew the agreement, which expired on 10/07/2019G.

The Company provided the following guarantees:

1. Coverage of each financing at a specified percentage of the Company's accounts receivable package according to the definition of accounts accepted by Alawwal Bank. The accounts receivable portfolio financed must be valid and free of any current or future claims or mortgages.
2. A promissory note of SAR 500,000,000.

The Company also made financial commitments, including:

1. The current assets to the current liabilities ratio shall not be greater than one time throughout the valid term of the facilities.
2. The leverage ratio shall not exceed 3 times throughout the valid term of the facilities.
3. The total debt/net receivables ratio shall not exceed 80% throughout the valid term of the facilities.

This agreement requires Alawwal Bank to be notified of any change in ownership, if any, including the public offering, The Company notified Alawwal Bank on 28/8/2018G of its intention to offer its shares and received a no objection letter from Alawwal Bank. This agreement also granted Alawwal Bank the right to lead or engage in leading any IPO. The Company received a letter from Alawwal Bank stating that it did not object to the IPO being led by a third party. Disputes related thereto shall be referred to the Committee for Settlement of Banking Disputes at SAMA.

The Company also entered into a hedging agreement with Alawwal Bank in accordance with ISDA/IFM forms. The current coverage is SAR 50,000,000. This amount is included in the above-mentioned financing limit for Alawwal Bank.

H. Facilities agreement with Al Rajhi Bank

The Company entered into a facility agreement with Al Rajhi Bank on 29/1/2018G. The Bank granted a credit sale limit of SAR 250,000,000 for 36 months.

The Company provided the following guarantees:

1. Waiver of amounts collected to the First Party to cover at least a specified percentage of the outstanding finance.

2. A promissory note of SAR 269,369,863.

The Company also made financial commitments, including:

1. The leverage shall not exceed 3 times.
2. The interest coverage ratio shall not be less than 2 times.
3. The ratio of total loans to tangible equity shall not be greater than 5 times.
4. The percentage of ownership change should not exceed 5% of the ownership.

This agreement requires Al Rajhi Bank to be notified of a change in ownership, if any, including the public offering. The Company notified Al Rajhi Bank on 28/8/2018G that it intended to offer its shares. The Company received a no objection letter from the Bank. This agreement and all related documents are governed by the applicable laws of the Kingdom of Saudi Arabia and Sharia rules. Disputes arising therefrom shall be referred to the competent judicial authorities in Riyadh.

I. Commercial finance and banking services agreement with NCB

The Company entered into a commercial finance and banking services agreement with National Commercial Bank (NCB) on 23/05/2018G, whereby the bank granted Islamic financing and banking services of SAR 400,000,000 to 30/11/2022G.

The Company also made financial commitments, including:

1. A promissory note of SAR 400,000,000.
2. Deposits in NCB's operating accounts shall not be less than 15% of the annual sales volume.
3. The leverage ratio shall not exceed 2.5:1 for 2017G and 2018G and 1:3 for subsequent years.
4. The loans to accounts receivable ratio shall not exceed 85%.
5. Net current trade receivables shall not be less than 120%.

The Company also entered into a hedging agreement with NCB in accordance with ISDA models. The current coverage is SAR 20,000,000. This amount is included in the above-mentioned financing limit for NCB.

12.5.8 IT Service Supply Agreements

The Company uses several information technology software programs under licensing agreements. Below is a summary of key licensing agreements entered into by the Company:

Table (191): Summary of key licensing agreements entered into by the Company

Agreement	Service provider	Date	Fees	Term and termination
Computer software license agreement	Temenos Headquarters	23/3/2017G	License fee: USD 500,000 Maintenance charge: USD 115,500 per annum	– The license term is 15 years – Initial maintenance term: 5 years – Either party may terminate the agreement upon breach by the other party if such breach is not remedied within 45 days. Either party may terminate it 10 days after the breach is remedied if it is related to confidentiality, waiver or intellectual property rights. Either party may also terminate it if the other party is bankrupt. – The service provider may terminate the agreement if the Company fails to pay within 45 days after notification of default payment.

Agreement	Service provider	Date	Fees	Term and termination
Computer software license agreement	Perform ICT	21/1/2011G	Undefined	– Term of LTU: permanent – Maintenance term: one year – Either party may terminate the agreement upon breach by the other party if such breach is not remedied within 30 days.
Banking package	SilverTech Corporation	15/6/2007G	License fee: USD 800,000 (for 50 users, plus USD 400 per additional user) Service fees: USD 700,000	– Term of LTU: permanent – Either party may terminate the agreement upon breach by the other party if such breach is not remedied within 30 days. Either party may also terminate the agreement in the event of the liquidation or bankruptcy of the other party.
Software maintenance and installation services agreement	IT Security Training & Solutions	7/9/2015G	Installation fee: SAR 499,070 Administrative fees: SAR 234,000 per annum	– Term: from 17/9/2017G to the end of 2018G. The agreement is renewed annually through payment of administrative fees for the period. – The Company may terminate the agreement if the service provider does not comply with its obligations.
Software maintenance and installation services agreement	Saudi Xerox Agencies Co.	30/4/2018G	Fixed fees: SAR 21,000 to be paid on a quarterly basis. Additional charges in case of additional services or use of additional capacity	– Term: 48 months after the date of the agreement – Either party may terminate the agreement upon breach by the other party. Either party may also terminate the agreement in the event of the liquidation or bankruptcy of the other party. – The service provider may terminate the agreement if the Company fails to pay within 3 days after notification of default payment.
Software maintenance and installation services agreement	National Data Consultant (Pvt)	23/3/2017G	USD 525,000 (equivalent to about SAR 1,968,750)	– Term: 36 months after the date of the agreement – Either party may terminate the agreement by a 60-day prior notice to the other party, upon breach by the other party or in the event of the liquidation or bankruptcy of the other party.
Management of design project, processing of construction works, installation of IT infrastructure, and office equipment plan	Arabian Lee Masters	17/12/2018G	SAR 3,000,000 million and a maximum additional budget of SAR 1,000,000 for furnishing requirements	– On or before 28/02/2019G. However, the agreement has not been completed yet due to a delay in project completion. – The Company may terminate the agreement upon a 14-day prior written notice to the other party.

In addition to the above software, the Company deals with several service providers in order to be able to use and maintain the software and servers as required by its day-to-day operations, including Microsoft, Symantec, Cisco, IBM and Saudi Business Machines Ltd. The Company is also a party to an information technology supply agreement of SAR 977,000, which has not been disclosed due to information confidentiality.

12.5.9 Labor Supply Agreements

The Company has entered into 4 labor supply agreements with a number of supply companies to provide labor for specific tasks, such as guarding, maintenance, cleaning, etc. These agreements are as follows:

1. Security guard services agreement with Abdullah Mohammed Al-Rasheed Security Guards Group dated 1/4/2015G, for a term of one Gregorian year, to be renewed automatically unless one party notifies the other of its intention not to renew it one month prior to the expiry of the agreement. Under this agreement, the Company pays a monthly fee of SAR 7,600 to secure two security guards, each of which works for 8 hours a day.
2. Professional service agreement with MANI for Operations and Maintenance dated 28/7/2015G for a term of one Gregorian year, to be renewed automatically unless one party notifies the other of its intention not to renew, to secure the Company's technicians, whereby the Company pays service fees to MANI for Operations and Maintenance, in addition to workers' monthly salaries and overtime. The Company pays an administrative fee of SAR 800 per month for each employee of Mani for Operations and Maintenance.
3. Labor services provision agreement with a branch of Mawarid Manpower Solutions Company dated 14/7/2013G to secure labor to provide different services to the Company, under which the Company pays a monthly fee of SAR 141,778, including workers' salaries. The term of the agreement is two Gregorian years commencing from the agreement date (22/07/2013G), to be renewed automatically unless one party notifies the other of its intention not to renew at least one month prior to the expiration of the original term of the agreement.
4. Agreement made with Remal Assawahel Contracting & Maintenance Co. dated 26/2/2015G to provide maintenance and operation services, under which the Company pays a service fee, including monthly salaries. Fees vary according to the services provided and the number of workers. The term of the agreement is one Gregorian year commencing from 01/04/2015G, to be renewed automatically for another year unless one party notifies the other of its intention not to renew one month prior to the expiration of the agreement term.

12.5.10 Agreements with Related Parties

As The Saudi Investment Bank is a shareholder at the Company, the agreements entered into by the Company with it or with one of its subsidiaries, directly or indirectly, are agreements with Related Parties. As there are appointed Directors from The Saudi Investment Bank, those agreements were approved by the Ordinary General Assembly. Below are the agreements:

1. General lease-to-own agreement. The Company (as the Seller) and The Saudi Investment Bank (as the Buyer) entered into this general agreement on 17/5/2016G to buy a number of real estate properties owned by the Company and leased under lease-to-own agreements with a number of the Company's customers, whereby the Buyer collects rents from the Company's customers (for details, refer to Table 192).
2. Sharia-compliant credit facilities agreement entered into by the Company with The Saudi Investment Bank on 9/3/2017G (for details, refer to Table 192).
3. Lease agreement with Saudi ORIX Leasing Company that rents real estate leased from The Saudi Investment Bank and sub-leases it to the Company (for details, refer to Table 193).
4. Memorandum of understanding with Alistithmar Capital:

   The Memorandum of understanding was concluded in April 2013G to cooperate on investment opportunities related to investment funds tied to residential project development. The Company submits investment opportunities to Alistithmar Capital, which in turn evaluates the opportunity within 7 days and responds to and coordinates with the Company regarding the conclusion of the transaction. Under the MoU, the maximum value per project assigned to the developer is SAR 300 million. The maximum total value of the projects assigned to the developer is SAR 400 million, and the project shall be implemented within 36 months. This investment cooperation shall be made on an exclusive basis; both parties shall not to enter into agreements similar to the MoU and Alistithmar Capital shall not to enter into any investment funds with any customers referred by the Company for one year after the date of referral, with certain exceptions. Under the MoU, the Company and Alistithmar Capital entered into the Saraya Tower Real Estate Development Fund Project, a closed real estate development fund operated by Alistithmar Capital.

The agreement is governed by the applicable laws of the Kingdom of Saudi Arabia and may be terminated by either party with a 90-day prior notice to be submitted by the party wishing to terminate it. The rights and obligations of the parties under the MoU shall remain valid for two years after termination.

Below is a summary of these agreements:

Table (192): Summary of key agreements between the Company and Related Parties as of 31/07/2019G

Name of agreement	Parties	Brief description	Value	Term and renewal
General lease-to-own agreement	The Company and The Saudi Investment Bank	– The Company entered into this general agreement on 17/5/2016G for the purchase of a number of real estate properties owned by the Company and leased under lease-to-own agreements with a number of the Company's customers, whereby the Buyer collects rent from the Company's customers. – In addition to the general agreement, the Company entered into an agency agreement on 18/5/2016G as part of the same transaction, whereby it collects, receives and delivers the rent to the Buyer in addition to managing and maintaining the real estate. – On 6/6/2016G, the Company entered into a real estate sale contract, that identified 14 real estate properties to be sold to the Buyer under the above general agreement and set out some additional conditions.	The sale value of the fourteen (14) real estate properties identified in the real estate sale contract is SAR 10,644,372.28.	One year, commencing from the date of agreement, to be renewed unless either party notifies the other of its intention not to renew it with a 30-day prior notice. The agreement is still effective
Financing agreements	The Company and The Saudi Investment Bank	Sharia-compliant credit facilities agreement of SAR 926,908,449	Hedge cap is SAR 37,500,000	The agreement is effective from 8/11/2018G to 31/8/2019G
Lease agreement	The Company and Saudi ORIX Leasing Company	A lease agreement with Saudi ORIX Leasing Company for the Company's head office in Riyadh, whereby the Company leases four floors and the ground floor of a building located in Al Maathar District, with an area of approximately 2,122 square meters	First two years: SAR 1,379,592 per annum Third, fourth and fifth years: SAR 1,591,837 per annum An amount of approximately SAR 132,653 per month for extension after the fifth year	Term: 5 years starting from 1/4/2012G It is renewed automatically for a similar period unless either party notifies the other of its intention not to renew, with a prior notice sent at least 6 months before the expiration of the agreement. The agreement is still effective

Name of agreement	Parties	Brief description	Value	Term and renewal
MoU	The Company and Alistithmar Capital	The memorandum of understanding was concluded in April 2013G to cooperate on investment opportunities related to investment funds tied to residential project development.	The maximum value per project assigned to the developer is SAR 300 million, and the maximum total value of projects assigned to the developer is SAR 400 million.	The Company intends to liquidate this investment in 2020G.

12.5.11 Lease Agreements Entered into by the Company as the Lessee

Amlak for Development owns just one land, under title deed No. 310107034472 dated 10/10/1435H, located north of Riyadh, in Sahafa Neighborhood, King Fahd Road, with an area of 1050 m2, for the purpose of building the Company's head office at a cost of SAR 18.5 million. The Company leases several sites in Riyadh, Jeddah and the Eastern Province to carry out its activities. Below is a summary of key lease agreements entered into by the Company:

Table (193): Summary of key lease agreements entered into by the Company as of 31/07/2019G

Agreement	Date	Lease value	Term and renewal
Lease agreement with Abdulaziz Abdullah Al-Mousa & Sons Co. Ltd., for a gallery on the ground floor of Al Mousa Trading Complex, King Faisal Street, Al Yarmouk District, Al Mousa Trading Complex at Al Khobar, with an area of 336 square meters	19/11/2015G	SAR 250,000 per annum and the Lessor (Abdulaziz Abdullah Al-Mousa & Sons Co. Ltd.) has the right to increase the rent starting in the third year	Term: 5 years starting from 1/1/2016G It is renewed automatically unless either party notifies the other of its intention not to renew, with a prior notice sent at least 90 days before the expiration of the agreement.
Lease agreement with the sons and wife of Dr. Khalid Al-Angari to rent a gallery in Al Andalusia Exhibitions, Prince Sultan Street, Jeddah, with an approximate area of 227 square meters	20/09/2010G	SAR 200,000 per annum	Term: 5 years starting from 1/11/2010G It is renewed automatically for a similar period unless either party notifies the other of its intention not to renew, with a prior notice sent 3 months before the expiration of the agreement. The agreement is still effective
A lease agreement with Saudi ORIX Leasing Company for the Company's head office in Riyadh, whereby the Company leases four floors and the ground floor of a building located in Al Maathar District, with an area of approximately 2,122 square meters	15/11/2011G	– Rent for the first and second years is SAR 1,379,592. – Rent for the third, fourth and fifth years is SAR 1,591,837. – Rent for the remaining years shall be fixed at SAR 1,591,837 until either party notifies the other of its intention not to renew, with a prior notice sent at least 6 months before the expiration of the agreement.	Term: 5 years starting from 1/4/2012G It is renewed automatically for a similar period unless either party notifies the other of its intention not to renew, with a prior notice sent at least 6 months before the expiration of the agreement. The agreement is still effective
Lease agreement with Rafal Real Estate for a sub-office in Riyadh, Ar Rabi Al Gharbi, Takhassusi Street, with an area of 220 square meters	18/5/2014G	SAR 209,000 per annum	Term: 5 years starting from 1/8/1436H

Agreement	Date	Lease value	Term and renewal
Lease agreement with Mr. Nayef Abdullah Al-Sufyan for an office in Riyadh, Ar Rabi Al Gharbi, Takhassusi Street, with an area of 2,910 square meters	22/07/2018G	SAR 2,500,000 per annum for the first five years and SAR 2,750,000 per annum for the last five years	Term: 10 Gregorian years binding on the lessor, the first five years of which shall be binding on the lessee. The contract can only be renewed upon conclusion of a new one

12.5.12 Other Agreements

The Company has concluded several agreements to support its day-to-day business, such as consulting, marketing and advertising agreements, as well as agreements with real estate valuators. Fees for consulting, marketing and advertising agreements range from SAR 18,000 to SAR 50,000 per month, while agreements with real estate valuators are based on commissions ranging from SAR 600 to SAR 1000 for each valuation. Agreements with real estate valuators are based on the models approved by the Company.

12.6 Insurance Policies

The Company and its Subsidiary maintain several insurance policies covering different types of risks to which it may be exposed. These insurance policies have been issued by several insurance companies inside the Kingdom. The following table sets out the key details of the insurance policies held by the Company:

Table (194): Summary of the Company's insurance policies as of 31/07/2019G

Policy No.	Type of coverage	Insurer	Maximum insurance coverage (SAR)	Coverage expiration date
The Company's insurance policies				
P/18/0000019/02	Life insurance	Alinma Tokio Marine Company	44,750,000 Saudi riyals	31/12/2019G
P/102/12106/2018/00014/01	Property insurance	Alinma Tokio Marine Company	25,985,066 Saudi riyals	29/01/2020G
34989100	Medical insurance	Bupa Arabia for Cooperative Insurance	As determined by the coverage schedule	30/09/2019G
GCRLIFE/2019/10659/2	Group Creditor's Protection Plan	Alahli Takaful Company	SAR 500,000 as unrestricted coverage SAR 3,000,000 as health-unrelated risk coverage	05/03/2020G
P/11/233201/7	Liability insurance for Directors and officers	Metlife AIG ANB: Cooperative Insurance	37,500,000 Saudi riyals	10/01/2020G
The Subsidiary's insurance policies				
P-02-2013-2-201-000083/R6	Fire insurance	Wataniya Insurance	701,996,206 Saudi riyals	27/08/2020G
P-02-2013-2-201-000085/R6	Fire insurance	Wataniya Insurance	25,837,343 Saudi riyals	27/05/2020G
P-02-2013-2-201-000104/R6	Fire insurance	Wataniya Insurance	521,341,369 Saudi riyals	29/07/2020G

Policy No.	Type of coverage	Insurer	Maximum insurance coverage (SAR)	Coverage expiration date
The Company's insurance policies				
PAR/38190	Property insurance	Allianz Saudi Fransi Cooperative Insurance Company	462,500 Saudi riyals	05/05/2020G

12.7 Intellectual Property

The Company has a trademark registered under Registration Certificate No. 1439023563, which is valid until 18/10/1449H (corresponding to 14/03/2028G).

Amlak International for Real Estate Development has a trademark "Tamaluk" registered under Registration Certificate No. 1436017665, which is valid until 28/8/1446H (corresponding to 27/2/2025G).

The Company's trademarks derive their value from their reach and customers' knowledge and perception thereof. Consequently, the success of the Company depends significantly on its ability to maintain and boost the strength and value of its trademark, which in turn depends on many factors, such as the Company's reputation and the financing products provided by the Company. Trademarks are also used in the Company's marketing activities, which contribute to increasing the Company's sales and profits.

Table (195): Summary of trademarks

Logo	Trademark Registration Certificate No.	Description	Country of registration	Effective date
AMLAK أمــلاك International العالمية	1439023563	An arch resembling the shape of a gate, in blue and red	Riyadh, Kingdom of Saudi Arabia	18/10/1449H (corresponding to 14/03/2028G)
تملك	1436017665	"Tamaluk" written in Arabic letters in blue	Riyadh, Kingdom of Saudi Arabia	28/8/1446H (corresponding to 27/2/2025G)

12.8 SAMA Observations and Breaches

The Company is licensed by SAMA and is, therefore, required to comply with the regulations and circulars issued thereby. In this regard, through field inspection visits based on a review of a sample of the Company's documents, SAMA provides observations on the Company's documents and the conduct of its business. SAMA has previously imposed fines on the Company for violation of applicable regulations and circulars, and the Company, accordingly, remedies such violations, adheres to corrective action plans, and pays fines. The Directors declare that the Company addresses all observations on a regular basis and works with SAMA to develop and comply with corrective action plans as may be required.

Table (196): Details of SAMA observations and breaches

	Causes of breach	Punishment / Penalty / Precautionary measure / Precautionary attachment	Statement
1	– The Company did not undertake the necessary procedures to verify the source of funds in cases of early payment by individuals. – Failure by the Company to fully comply with due diligence requirements, as it was found that there were foreign customers registered in the Company's records as Saudis. – Lack of a line or declaration in the Company's finance application forms indicating the real beneficiary of the financing. – Failure by the Company to maintain the confidentiality of reports submitted to the Financial Investigation Department. – Lack of policies or procedures to determine the mechanism that the Company must adopt in communicating with the competent authorities on money laundering operations.	– The Company was required to pay a fine of SAR 130,000 related to anti-money laundering and counter-terrorism financing requirements. The fine was paid as of the date of this Prospectus.	– All of the observations were addressed. – There are no expected financial charges due to the inspection visit observations, only the mentioned fine was imposed. – There are no non-financial charges or penalties due to those observations, only the mentioned fine was imposed.
2	– The Company did not update the credit information of one of its customers with the Saudi Credit Bureau (SIMAH). – Amlak International Real Estate Finance was in violation of Clause (2) of Article (57) of the Implementing Regulations of the Law on Supervision of Finance Companies and Clause (4) of Article (40) of the Implementing Regulations of the Credit Information Law.	– Warning the Company not to repeat such violation or violate the applicable laws and circulars. – The Company was required to pay a fine of SAR 25,000, which was paid as of the date of this Prospectus.	– All of the observations were addressed. – There are no expected financial charges due to the inspection visit observations, only the mentioned fine was imposed. – There are no non-financial charges or penalties due to those observations, only the mentioned fine was imposed.
3	The Company does not have appropriate automated and non-automated systems to help monitor transactions and track suspicious ones.	A corrective action plan was implemented as of 2017G	This was remedied by the operation of the automated system as of 19/05/2019G – There are no expected financial charges due to the inspection visit observations. – There are no non-financial charges or penalties due to those observations.

	Causes of breach	Punishment / Penalty / Precautionary measure / Precautionary attachment	Statement
4	Six observations given by SAMA on the Company's automated system: – Improving the system for the corporate segment and high-net-worth individual customers. – Valuators are not automatically selected. – Poor effectiveness and efficiency of the system. – Lack of a collection system. – Lack of an automated compliance management system. – Lack of an automated audit management system.	A corrective action plan was implemented as of 2018G	This was remedied by the operation of the automated system as of 19/05/2019G – There are no expected financial charges due to the inspection visit observations. – There are no non-financial charges or penalties due to those observations.
5	Two observations regarding risk management: – Non-use of the key risk indicators and the key control indicator by all departments. – Lack of a central risk register for all departments	A corrective action plan was implemented as of 2018G	This was remedied on 28/07/2019G. – There are no expected financial charges due to the inspection visit observations. – There are no non-financial charges or penalties due to those observations.

12.9 Claims and Litigation

12.9.1 Zakat and Tax Disputes

Zakat

The Company has been involved in three disputes related to the Company's objection to additional Zakat amounts imposed by the General Authority of Zakat and Tax (GAZT) on the Company. The Company has submitted its Zakat and tax declarations for 2007G to 2017G. GAZT decided to impose an additional amount of SAR 39,450,916 for 2007G to 2010G and SAR 44,172,529 for 2011G and 2012G. Further, GAZT imposed an amount of SAR 151,330,263 for 2013G to 2016G.

On 26/06/1440H (corresponding to 03/03/2019G), the Company made a binding settlement of Zakat liabilities with GAZT, amounting to SAR 33,680,095 for 2013G to 2017G, and the method of Zakat calculation for 2018G was determined, with Zakat amounting to SAR 9,509,871. The total amounts to be paid for 2013G to 2018G were SAR 43,189,966. The Company also paid the payable tax for 2018G amounting to SAR 511,000, and it shall pay about SAR 273,129 for 2013G to 2017G for income tax. The full effect of the settlements will be reflected in the Company's financial statements for the six-month period ended 30 June 2019G.

On 11/04/2019G, the decision of the Zakat and Tax Dispute Settlement Committee was approved to settle the Company's Zakat liabilities for 2007G to 2012G in an amount of SAR 12,396,758 and SAR 205,117 with respect to income tax, as well as a fine of SAR 20,000 imposed against the Company for not filing a return.

The Company does not expect any additional Zakat or tax claims for 2007G-2018G not included in the settlements or not listed in the Prospectus. In the event that there are any additional claims filed by GAZT, the Company will bear all such claims, if any. No Selling Shareholder will bear any such claims.

As of the date of this Prospectus, amounts related to the settlement were paid according to the schedule agreed with GAZT.

Table (197): Summary of settlement developments as of 30/06/2019G

Years / Statement	Settlement outcome (SAR' 000)	Description of settlement developments	Exposure volume before settlement
2013G - 2018G	43,190	GAZT offered the option of accepting a settlement to the Company. On 26/06/1440H (corresponding to 3 March 2019G), a binding settlement of SAR 33,680,095 was signed with GAZT for 2013G to 2017G. As for 2018G, an amount of SAR 9,509,871 was calculated. As such, the total amount to be paid for years 2013G to 2018G is SAR 43,189,966. This settlement relates only to the years in which the Company operated under SAMA License after the issuance of financing regulations.	SAR 254.3 million
2007G - 2012G	12,622	As it operated from 2007G to 2012G before SAMA issued the financing and licensing regulations, the Company was not subject to the above settlement and, therefore, the Company requested a settlement for the amounts related to those years. A settlement report was signed on 7 March 2019G with GAZT. On 11/04/2019G, the decision of the Zakat and Tax Dispute Settlement Committee was approved to settle Zakat and tax obligations, along with a fine of SAR 12,621,875 imposed against the Company for not filing a return for 2007G to 2012G.	SAR 83.6 million
Total	55,812	Total amount of Zakat and tax adjustments for 2007G to 2018G (covering all years since the inception of the Company) and a fine for not filing a return	
Provision	32,168	As of 30/06/2019G, a Zakat provision of SAR 32.2 million was deducted from retained earnings (these provisions do not include tax provisions of SAR 0.8 million as of 30/06/2019G).	

GAZT has issued rules for calculating Zakat related to financing activities, which apply to banks and finance companies licensed by SAMA. These rules were published on 08/07/1440H (corresponding to 15/03/2019G) in Um Al-Qura, Issue No. 4771. These rules will be followed in calculating Zakat as of 2019G and the subsequent years. Based on such rules, the Zakat pool for the companies that report profit should have a minimum and a maximum amount, ranging from four (4) times the profit before zakat at the end of zakat year as a minmum amount to eight (8) times net income before zakat at the end of zakat year as a maximum amount of the profit of the year, before Zakat and tax.

As of the date of this Prospectus, amounts related to the settlement were paid according to the schedule agreed with GAZT.

Table (198): Zakat and Tax Dispute Settlement Committee settlement amounts for 2007G-2018G

(SAR'000)	2019G	2020G	2021G	2022G	2023G	Total
Total settlement for the period from 2007G to 2012G	12,622					**12,622**
Total settlement for the period from 2013G to 2018G	21,634	5,389	5,389	5,389	5,389	**43,190**
Total settlement amounts	34,256	5,389	5,389	5,389	5,389	**55,812**
Amount paid	28,868					**28,868**
Total amounts unpaid	**5,389***	**5,389**	**5,389**	**5,389**	**5,389**	**26,945**

Source: The Company * Amount due date 1/12/2019G .

Value Added Tax

The General Authority for Zakat and Tax (GAZT) conducted an inspection on the application of VAT for the period from the beginning of January 2018G until the end of January 2019G, as of the date of this prospectus, a value-added tax has been implemented on real estate financing and fines related to such operations according to the following details:

Table (199): Value Added Tax on Real Estate Financing Operations and Related Fines as of 31/01/2020G

	Amount (SAR millions)
Calculation differences	9.2
Fines for declaration errors	3.5
Fines for late payment	7.2
Total	**19.9**

Source: The Company.

All obligations and fines relating to VAT received by the Company up to the date of this Prospectus are disclosed in this Prospectus.

The company will work on submitting an objection to clarify its position on the notifications received from the General Authority for Zakat and Tax (GAZT). Currently, there is no specific time period for a final decision.

12.9.2 Litigation

As of 31/07/2019G, the Company has sixteen 16 outstanding cases filed by the Company against its customers before the execution courts in the Kingdom to claim rents and installments due. According to the execution decisions, the amount of these claims is two hundred eighteen million, one hundred sixty-eight thousand, eight hundred one riyals (SAR 218,168,801). As of 31/07/2019G, the Company is subject to eight 8 claims amounting to four million, four hundred ninety-one thousand, five hundred eighty-eight riyals (SAR 4,491,588). For more information, see Table (200) Summary of Existing Claims against the Company as of 31/07/2019G.

The Directors declare that there are no actual or potential judicial disputes, cases, complaints or investigation procedures that may, individually or collectively, have a material effect on the Company. Moreover, the Company has not been aware of any material legal disputes currently pending or potential or facts which, individually or collectively, may pose an imminent risk related to a substantial conflict except as stated in this prospectus.

The names of customers or other parties to the cases are not mentioned in order to maintain the confidentiality of the Company' information and to comply with Article 88 of the Implementing Regulations of the Law on Supervision of Finance Companies.

Table (200): Summary of pending claims filed against the Company as of 31/07/2019G

	Plaintiff (customer number)	Defendant / Impleaded party *	Date of the claim	Subject of the claim	Financial impact (SAR)	Status of the claim
1	Company's customer: 401010008651 Retail category	Amlak International for Real Estate Finance	27/06/2018G	A claim filed with the Financing Disputes and Violations Settlement Committee to request a reduction in the amount of profits of two million, ninety-nine thousand, nine hundred eighty-eight riyals (SAR 2,099,988) and recover duplicate promissory notes issued by the customer as security of payment.	2,099,988	The case is still pending at Committees For Banking And Financial Disputes And Violations.

	Plaintiff (customer number)	Defendant / Impleaded party *	Date of the claim	Subject of the claim	Financial impact (SAR)	Status of the claim
2	Company's customer: 403010002633 Retail category	Amlak International for Real Estate Finance	15/03/2019G	The plaintiff filed a claim before the Financing Disputes and Violations Settlement Committee. On 18/03/2019G, the Company received notification from the Committee. The plaintiff moved for the cancellation of the contract as the property (a residential building) was subject to a judgement stating that the property shall be leased only to families and bachelors are required to leave the same. Accordingly, the plaintiff filed the claim as the property does not fulfill the purpose for which the real estate financing was obtained.	9,799	The case is still pending at the Committees For Banking And Financial Disputes And Violations. The amount of the outstanding claim has not been paid yet
3	Third party	Amlak International for Real Estate Finance (Impleaded party)	13/11/2017G	The plaintiff (Third party) filed a claim against one of the Company's customers to demand the evacuation of a property. The plaintiff had guaranteed the customer in the Ijara contract for the property. The customer-maintained ownership of the property on the basis that the transfer of ownership of the property was made under an agreement with the Company. The customer moved for impleading of the Company as a third party in the case.	There is no financial impact as he requested that the Company only indicate the nature of the contractual relationship with the customer without a financial claim being made against the Company.	The case is still pending at the General Court in Riyadh. A judgement was rendered against the other party to pay only 650,000 to the plaintiff (Third party) There is no financial impact on the company from the court judgment
4	Company's customer: 402010002588 Retail category	Amlak International for Real Estate Finance	21/05/2018G	A claim to terminate a contract for purchase of two villas for a total amount of three million, one hundred eighty-one thousand, four hundred sixty-four riyals (SAR 3,181,464) due to structural defects that prevented the customer from utilizing the property. Consequently, the customer moved for cancellation of the contract and claimed the paid rent amounting to two hundred eighty thousand riyals (SAR 280,000).	280,000	The case is still pending at the General Court in Riyadh
5	Law firm	Amlak International for Real Estate Finance	05/12/2018G	A claim filed against the Company at the Commercial Court for a second payment of one hundred fifty thousand (SAR 150,000) as attorney's fees for a repealed contract.	150,000	The case is still pending at the General Court. The amount related to the pending claim has not been paid yet

	Plaintiff (customer number)	Defendant / Impleaded party *	Date of the claim	Subject of the claim	Financial impact (SAR)	Status of the claim
66	Third party	Amlak International for Real Estate Finance (Impleaded party)	25/12/2016G	The plaintiff filed a claim against the Company for amounts of invoices. He alleged that the Company was obliged to pay invoices of nine hundred fifty-three thousand, six hundred twenty-seven riyals (SAR 953,627) in accordance with a sale contract concluded with the Company.	953,627	The case is still pending at the General Court. The amount related to the pending claim has not been paid yet.
7	Company's customer: 401010008415 High-net-worth individuals category	Amlak International for Real Estate Finance	09/10/2018G	A claim filed against the Company by a defaulting customer at the General Court, whereby the plaintiff moved for removal of the execution procedures lodged against him under an execution decision obtained by the Company in accordance with the conciliation contract made by the (former) execution court on 13/07/2017G. Under such conciliation contract, the customer shall, within a period of one month, pay seven million, eight hundred sixty-one thousand, one hundred seventy-four riyals (SAR 7,861,174). Moreover, he moved that the property be seized in return for the amount. However, the Company argued that the Court had no jurisdiction to consider the claim.	998,174	The claim is still pending at the General Court. The amount related to the pending claim has not been paid yet.
8	Third party	Amlak International for Real Estate Finance (Impleaded party)	17/10/2018G	The plaintiff filed a claim against a customer (financed by Murabaha). The customer sold the property and received part of the amount. The plaintiff asks the customer to convey the property in his name and pay the rest of the amount upon conveyance.	There is no financial impact as he requested that the Company only indicate the nature of the contractual relationship with the customer without a financial claim being made against the Company.	The claim is still pending at the General Court. The amount related to the pending claim has not been paid yet.
				Total financial impact	4,491,588	

* Impleaded party: A party introduced to an existing claim under an impleader filed by a third party (having no contractual relationship with such impleaded party). The impleaded party is introduced to a claim at the request of a party to the claim (the plaintiff or the defendant) or the court.

Table (201): Summary of pending claims filed by the Company as of 31/07/2019G

	Plaintiff	Defendant (customer number)	Date of the claim	Subject of the claim	The financial impact based on the promissory note (SAR)	Status of the claim
1	Amlak International for Real Estate Finance	Company's customer: 401010010698 Retail category	14/03/2018G	A claim for rent and evacuation of a property due to the customer failing to pay the rent. The Company obtained an execution decision to collect a promissory note in an amount of SAR 9,509,195	9,509,195	The claim is still pending at the Enforcement Court. The amount related to the pending claim has not been paid yet. The property in question has not been evacuated.
2	Amlak International for Real Estate Finance	Company's customer: 401010009928 Corporate category	31/05/2017G	A claim for rent and evacuation of a property due to the customer failing to pay the rent. The Company obtained an execution decision to collect a promissory note in an amount of SAR 66,244,563	66,244,563	The claim is still pending at the Enforcement Court. The amount related to the pending claim has not been paid yet. The property in question has not been evacuated.
3	Amlak International for Real Estate Finance	Company's customer: 401010008873 Corporate category	28/04/2016G	A claim for rent and evacuation of a property due to the customer failing to pay the rent. The Company obtained an execution decision to collect a promissory note in an amount of SAR 93,738,423	93,738,423	The claim is still pending at the Enforcement Court. The amount related to the pending claim has not been paid yet. The property in question has not been evacuated.
4	Amlak International for Real Estate Finance	Company's customer: 401010008415 Corporate category	02/10/2017G	A claim for execution of the conciliation contract due to the customer failing to pay an amount of SAR 7,861,174, and the Company obtained an execution decision thereunder To pay the fill amount of the conciliation contract	7,861,174	An enforcement order was issued by the Enforcement Court. The amount related to the pending claim has not been paid yet.

	Plaintiff	Defendant (customer number)	Date of the claim	Subject of the claim	The financial impact based on the promissory note (SAR)	Status of the claim
5	Amlak International for Real Estate Finance	Company's customer: 403010002282 Retail category	27/12/2018G	A claim for rent and evacuation of a property due to the customer failing to pay the rent. The Company obtained an execution decision to collect a promissory note in an amount of SAR 141,501	141,501	An enforcement order was issued by the Enforcement Court. The amount related to the pending claim has not been paid yet. The property in question has not been evacuated.
6	Amlak International for Real Estate Finance	Company's customer: 401010004350 Retail category	08/08/2018G	A claim for rent and evacuation of a property due to the customer failing to pay the rent. The Company obtained an execution decision to collect a promissory note in an amount of SAR 5,992,300	5,992,300	An enforcement order was issued by the Enforcement Court. The amount related to the pending claim has not been paid yet. The property in question has not been evacuated.
7	Amlak International for Real Estate Finance	Company's customer: 402010000890 Retail category	18/10/2018G	A claim for rent and evacuation of a property due to the customer failing to pay the rent. The Company obtained an execution decision from the Enforcement Court to collect a promissory note in an amount of SAR 4,048,750	4,048,750	An enforcement order was issued by the Enforcement Court. The amount related to the pending claim has not been paid yet. The property in question has not been evacuated.
8	Amlak International for Real Estate Finance	Company's customer: 402010000777 Retail category	06/11/2018G	A claim for rent and evacuation of a property due to the customer failing to pay the rent. The Company obtained an execution decision from the Enforcement Court to collect a promissory note in an amount of SAR 414,399	414,399	The claim is still pending at the Genral Court. The amount related to the pending claim has not been paid yet. The property in question has not been evacuated.

	Plaintiff	Defendant (customer number)	Date of the claim	Subject of the claim	The financial impact based on the promissory note (SAR)	Status of the claim
9	Amlak International for Real Estate Finance	Company's customer: 401010010612 Retail category	15/11/2018G	A claim for rent and evacuation of a property due to the customer failing to pay the rent. The Company obtained an execution decision from the Enforcement Court to collect a promissory note in an amount of SAR 3,319,677	3,319,677	An enforcement order was issued by the Enforcement Court. The amount related to the pending claim has not been paid yet. The property in question has not been evacuated.
10	Amlak International for Real Estate Finance	Company's customer: 403010002633 Retail category	16/09/2018G	A claim for rent and evacuation of a property due to the customer failing to pay the rent. The Company obtained an execution decision from the Enforcement Court to collect a promissory note in an amount of SAR 2,636,195	2,636,195	An enforcement order was issued by the Enforcement Court. The amount related to the pending claim has not been paid yet. The property in question has not been evacuated.
11	Amlak International for Real Estate Finance	Company's customer: 402010000258 Retail category	09/08/2018G	A claim for rent and evacuation of a property due to the customer failing to pay the rent. The Company obtained an execution decision from the Enforcement Court to collect a promissory note in an amount of SAR 1,368,025	1,368,025	An enforcement order was issued by the Enforcement Court. The amount related to the pending claim has not been paid yet. The property in question has not been evacuated.
12	Amlak International for Real Estate Finance	Company's customer: 401010008163 Corporate category	09/01/2019G	A claim for rent and evacuation of a property due to the customer failing to pay the rent. The Company obtained an execution decision from the Enforcement Court to execute a conciliation contract in an amount of SAR 4,019,445.	4,019,445	An enforcement order was issued by the Enforcement Court. The amount related to the pending claim has not been paid yet. The property in question has not been evacuated.

	Plaintiff	Defendant (customer number)	Date of the claim	Subject of the claim	The financial impact based on the promissory note (SAR)	Status of the claim
13	Amlak International for Real Estate Finance	Company's customer: 401010010490 Retail category	18/02/2019G	A claim for rent and evacuation of a property due to the customer failing to pay the rent. The Company obtained an execution decision from the Enforcement Court to collect a promissory note in an amount of SAR 1,364,997)	1,364,997	An enforcement order was issued by the Enforcement Court. The amount related to the pending claim has not been paid yet. The property in question has not been evacuated.
14	Amlak International for Real Estate Finance	Company's customer: 401010008361 Corporate category	09/08/2018G	A claim for rent and evacuation of a property due to the customer failing to pay the rent. The Company obtained an execution decision from the Enforcement Court to collect a promissory note in an amount of SAR 14,285,036.	14,285,036	An enforcement order was issued by the Enforcement Court. The amount related to the pending claim has not been paid yet. The property in question has not been evacuated.
15	Amlak International for Real Estate Finance	Company's customer: 401010010698 Retail category	28/2/2018G	The Company filed a complaint at the police for financial fraud. The customer and the owner of the property were involved in defrauding the Company. The police conducted an initial investigation and received the documents from the Company. Then the police referred it to the Prosecution for instruction with regard to the complaint.	3,187,500	The claim is still pending at the Public Prosecution. The amount related to the pending claim has not been paid yet.
16	Amlak International for Real Estate Finance	Company's customer: 403010002794 Retail category	08/07/2019G	A claim for rent and evacuation of a property due to the customer failing to pay the rent. The Company obtained an execution decision from the Enforcement Court to collect a promissory note in an amount of SAR 37,621	37,621	An enforcement order was issued by the Enforcement Court. The amount related to the pending claim has not been paid yet. The property in question has not been evacuated.
				Total financial impact	218,168,801	

12.9.3 Disputes related to Default of Customers and Implementation Issues

The Company has a number of defaulting customers who are associated with the Company under twenty-nine (29) contracts as of 31/07/2019G. The total amount of defaulted payments was one hundred forty million, sixty-six thousand and fifty-one (140,066,051). The Company filed claims with the execution court with respect to sixteen (16) contracts in order to execute on the promissory notes issued as a guarantee for payment. The total amounts authorized for collection under execution decisions issued by the execution court is two hundred eighteen million, one hundred sixty-eight thousand, eight hundred one Saudi riyals (SAR 218,168,801) under the relevant promissory notes.

Table (202): Information on defaulting customers as of 31/07/2019G

Division	Client account No.	Amount payable (SAR)	Product
Companies	20000051595	8,083,499	Ijara
Retail	20000051439	26,568,198	Ijara
Retail	20000051037	8,286,312	Ijara
Retail	20000050769	494,570	Ijara
Retail	20000049067	2,666,121	Murabaha
Retail	20000047156	5,368,148	Ijara
Retail	20000046467	1,596,572	Ijara
Retail	20000046222	155,631	Ijara
Retail	20000046192	1,236,234	Ijara
Retail	20000045862	1,936,160	Ijara
Retail	20000044645	744,297	Ijara
Retail	20000042235	583,237	Ijara
Retail	20000041913	1,046,427	Ijara
Retail	20000041271	2,581,706	Ijara
Retail	20000039587	3,296,639	Ijara
Retail	20000039153	21,544	Ijara
Retail	20000039137	14,042	Ijara
Retail	20000039118	23,567	Ijara
Retail	20000039099	23,658	Ijara
Retail	20000038831	1,031,474	Ijara
Retail	20000038653	2,408,392	Ijara
Retail	20000038416	155,453	Ijara
Retail	20000037789	21,356	Ijara
Retail	20000037746	13,040	Ijara
Retail	20000037134	1,532,784	Ijara
Corporate	20000036529	7,514,695	Ijara
Corporate	20000036518	4,573,899	Ijara
Corporate	20000036235	27,409,982	Ijara
Corporate	20000035905	30,678,414	Murabaha
Total		**140,066,051**	

Source: The Company.

12.10 Declarations Related to Legal Information

The Directors declare that:

1. The Offering is not in violation of the relevant laws and regulations in the Kingdom of Saudi Arabia.
2. The Offering does not prejudice any of the contracts or agreements to which the Company is a party.
3. All material legal information of the Issuer has been disclosed in the Prospectus.
4. Except as provided under Section 12.9 "**Judicial Proceedings and Claims**" of this Prospectus, the Company and its Subsidiary are not subject to any legal proceedings or claims that may materially affect, individually or wholly, the business or financial position of the Company or its Subsidiary.
5. The Directors are not involved in any litigation or legal proceedings that may, severally or jointly, have a material impact on the business or financial position of the Company or its Subsidiary.

12.11 Summary of the Articles of Association

12.11.1 Company Name

The Company's name is "Amlak International for Real Estate Finance", a Saudi joint stock company incorporated under Commercial Registration No. 1010234356 dated 27/05/1428H (corresponding to 13/6/2007G).

12.11.2 Objectives of the Company

The Company's objectives are as follows:

- The Company's main activity is to engage in the real estate finance business for companies and individuals in accordance with the Companies Law and the Law on Supervision of Finance Companies, its Implementing Regulations and regulations related thereto, as well as the laws, rules and instructions issued by the competent authorities.
- Without prejudice to the Companies Law, the Law on Supervision of Finance Companies and its Implementing Regulations and the rules and instructions issued by the competent authorities, the Company may perform all of the activities necessary to accomplish its objectives. The Company pursues all of its objectives in accordance with the provisions of Islamic Sharia.

12.11.3 Head Office

The head office of the Company is located in Riyadh and may be relocated to any other city in Saudi Arabia by a resolution of the Extraordinary General Assembly, subject to SAMA's written approval. The Company may establish branches, offices or agencies inside or outside Saudi Arabia, subject to the applicable laws, regulations, rules and instructions of the Kingdom and after obtaining a letter of no objection from SAMA.

12.11.4 Participation and Ownership in Companies

The Company may establish companies (limited liability or closed joint stock companies). It may own shares and stocks in other existing companies or merge with them. Moreover, the Company may participate with others in the establishment of joint-stock or limited liability companies after satisfying the requirements of the laws and instructions in this regard. The Company may also dispose of such shares or stocks, provided that is no brokerage in trading shares.

The Company is committed to obtaining the approval of the competent administrative authorities in accordance with the relevant laws and obtaining the necessary licenses after receiving a letter of no objection from SAMA.

12.11.5 Duration of the Company

The term of the Company shall be 99 years, commencing from the issue date of the ministerial resolution announcing the Company's incorporation. The term of the Company may be extended by a resolution issued by the Extraordinary General Assembly at least one year prior to the expiration of its term.

12.11.6 Company's Share Capital

The capital of the Company is nine hundred six million (906,000,000) Saudi riyals, divided into ninety million, six hundred thousand (90,600,000) nominal shares of equal value. The nominal value is ten (10) Saudi riyals per share, and all shares are ordinary and cash shares, resulting in equal rights and obligations for all shareholders.

12.11.7 Subscription to the Shares

The founders have subscribed to the entire capital of ninety million, six hundred thousand (90,600,000) shares with a value of nine hundred six million (906,000,000) Saudi riyals paid in full.

12.11.8 Sale of Unpaid Shares

Shareholders shall pay the value of the share on the dates set for such payment. If a Shareholder fails to pay the value of a share when it falls due, the Board of Directors may, after giving a notice to the Shareholder by registered mail sent to their address recorded in the Shareholders' Register, sell such shares in a public auction or on the Stock Exchange, as the case may be, in accordance with measures set by the competent authority. A defaulting shareholder may, up to the date of the auction, pay the amount due plus the expenses incurred by the Company in this regard. The Company shall collect the amounts due from the sale proceeds and the rest shall be returned to the shareholder. If the sale proceeds are not sufficient to fulfill these amounts, the Company may fulfill the remaining portion from all of the shareholder's balances.

The Company shall cancel the Share so sold and issue to the purchaser a new share bearing the serial number of the cancelled Share, and make a notation to that effect in the Shareholders' Register, along with stating the name of the new shareholder.

12.11.9 Preferred Shares

The Company's Extraordinary General Assembly may, based on the rules set by the competent authorities, issue preferred shares, decide to purchase the same or convert ordinary shares into preferred shares or vice versa. Preferred shares do not give their holders the right to vote at shareholders' general assemblies. However, such shares do give their holders the right to a higher percentage of the net profits than the percentage allotted to the holders of ordinary shares, after setting aside the statutory reserve.

12.11.10 Issuance of Shares

The shares shall be nominal shares, and may not be issued at less than their nominal value. However, the shares may be issued at a value higher than their nominal value, in which case the difference in value shall be added as a separate item in the shareholders' equity. They may not be distributed as dividends to the shareholders. A share shall be indivisible vis-à- vis the Company. In the event that a share is owned by several persons, they shall select one person from amongst them to exercise, on their behalf, the rights pertaining to the share, and they shall be jointly responsible for the obligations arising from ownership of the share. This article shall apply to the interim certificates delivered to shareholders prior to the issuance of the share.

12.11.11 Buyback

The Company may purchase or pledge its shares in accordance with the measures imposed by the competent authority. Shares held by the Company shall not have any votes in shareholders' assemblies.

12.11.12 Trading of Shares

Without prejudice to Article 8 of the Law on Supervision of Finance Companies and Article (10.3) of the Implementing Regulations of the Law on Supervision of Finance Companies, shares shall be tradable after issuance of their certificates. As an exception, shares subscribed by the founders shall not be traded before the publication of the financial statements for two financial years, each not less than 12 calendar months, from the date of the Company's incorporation. A notation shall be made on the respective share registers, indicating their class, the date of incorporation of the Company, and the period during which trading shall be suspended. During the Lock-up Period, shares may, in accordance with the legal provisions for the sale of rights, be transferred from one founder to another, or from the heirs of a deceased founder to a third party or, in the event of the seizure of funds of an insolvent or bankrupt founder, provided that other founders are given priority to acquire ownership of such shares.

In all cases, the founding shares shall not be disposed of without obtaining a letter of no objection from SAMA in accordance with Article 8 of the Law on Supervision of Finance Companies.

12.11.13 Shareholders' Register

Without prejudice to Article 8 of the Law on Supervision of Finance Companies and Article (10.3) of the Implementing Regulations of the Law on Supervision of Finance Companies, the Company's nominal shares shall be traded by being entered in the Shareholders' register, prepared by or contracted to be prepared for the Company, which shall contain the shareholders' names, nationalities, domicile, occupations and the serial numbers and paid-up value of such shares. In this entry, an annotation shall be made on the share. The transfer of title to a share shall be effective vis-à-vis the Company or any third party only from the date it is recorded in the said register or the transfer procedures are completed using the automated share information system. The subscription or ownership of the shares by a shareholder shall mean the acceptance by the shareholder of the Company's Bylaws and their submission to the resolutions duly passed by the General Assemblies, whether the shareholder was present or absent, and whether the shareholder agreed or objected to such resolutions.

12.11.14 Increase of Capital

After obtaining a letter of no objection from SAMA in advance and subject to the approval of the competent authorities, the Extraordinary General Assembly may resolve to increase the capital of the Company one or more times by issuing new shares at the same nominal value as the original shares or at an issue premium, provided that the capital has been paid in full. It is not a requirement that the capital be paid in full if the unpaid portion thereof pertains to shares issued in return for the conversion of debt or financing instruments into shares while the term set for the conversion has not yet ended.

Subject to the Companies Law, the resolution of the Extraordinary General Assembly shall specify the capital increase method. The capital may be increased by:

- a- Issuance of new shares for cash shares;
- b- Issuance of new shares against debts of a specific amount due and payable by the Company, provided that the issue is for the value determined by the Extraordinary General Assembly after seeking the opinion of an expert or certified evaluator and after a statement is prepared by the Board of Directors and auditor on the origin and amount of the debts. The Directors and auditor shall sign such statement and shall be responsible for its validity;
- c- Issuance of new shares for the amount of the reserve that the Extraordinary General Assembly resolves to capitalize; the new shares must be issued in the same form and under the same terms as the outstanding shares. They shall be distributed among shareholders for free in proportion to the number of the original shares owned by each, or
- d- Issuance of new shares for debt and financing instruments.

Upon a resolution by the General Assembly to increase the capital, shareholders may have priority in subscribing for new shares issued for cash shares. Shareholders shall be notified of such priority, if any, by publication in a daily newspaper or notified by registered mail of the resolution to increase the capital and the subscription conditions and duration. The new shares shall be distributed to the holders of priority rights applying for subscription in proportion to their priority rights out of the total priority rights arising from the capital increase, provided that the number of shares allotted to them does not exceed the number of new shares they have applied for. The remainder of new shares shall be distributed to the holders of priority rights who requested more than their shares, in proportion to their priority rights out of the total priority rights arising from the capital increase, provided that their total allotment does not exceed the number of new shares they have requested. Unless otherwise decided by the Extraordinary General Assembly or otherwise provided by the Capital Market Law, the remainder of the shares shall be offered to others.

The Extraordinary General Assembly may suspend the shareholders' pre-emptive right to subscribe for an increase in the Company's capital against contributions in cash or may give priority to non-shareholders in such cases as it deems appropriate for the Company.

Shareholders shall be entitled to sell or waive the right of priority during the period from the time of the resolution of the General Assembly approving the capital increase to the last day of subscription in the new shares related to such rights, in accordance with the regulations determined by the competent authority.

In all cases, the Extraordinary General Assembly may, when increasing the capital, allocate the issued shares or a portion thereof to employees of the Company and its subsidiaries. Shareholders may not exercise a pre-emptive right when the Company issues shares designated for employees.

12.11.15 Decrease of Capital

After obtaining a letter of no objection from SAMA in advance and subject to the approval of the competent authorities, the Extraordinary General Assembly may, for valid reasons, resolve to reduce the capital if it exceeds the Company's need or if it suffers losses. Subject to the Companies Law, such resolution shall be issued only after reading out the auditor's report on the reasons therefor, the obligations to be fulfilled by the Company and the effect of the reduction on such obligations. The resolution shall state the method of reduction; if the reduction is due to the capital being in excess of the Company's needs, then the Company's creditors must be invited to express their objection thereto within sixty (60) days from the date of publication of the reduction resolution in a daily newspaper published in the city where the Company's head office is located. Should any creditor object and present to the Company evidentiary documents within the time limit set above, then the Company must pay such debt, if already due, or present an adequate guarantee of payment if the debt is due on a later date.

Capital shall be decreased in one of the following ways:

a- Canceling a number of shares equivalent to the amount of the proposed reduction; or

b- The Company purchasing and canceling a number of its shares equivalent to the amount of the proposed reduction.

If the capital reduction is affected by the cancellation of a number of shares, equality shall be observed among shareholders. They shall provide to the Company - within the period specified thereby - the shares to be canceled; otherwise, the Company shall have the right to deem them canceled.

If the capital reduction is to be conducted by purchase of a number of the Company's shares in order to cancel them, the Shareholders shall be notified to offer their shares for sale. Such notification of the Company's desire to purchase the shares shall be sent to the shareholders by registered mail or published in a daily newspaper distributed in the locality of the Company's head office. If the number of shares offered for sale exceeds the shares which the Company has resolved to purchase, the offers for sale must be reduced proportionately to such excess.

12.11.16 The Board of Directors

The Company shall be managed under the direction of a Board of Directors composed of nine (9) directors elected by the shareholders in an Ordinary General Assembly for a term not exceeding three (3) years. Any director may be re-elected, subject to the Companies Law, the Corporate Governance Regulations and the relevant applicable rules. This appointment shall not prejudice a legal entity's right to replace its representative on the Board. Such shall be subject to the eligibility requirements set by SAMA and a letter of no objection to be obtained from SAMA.

12.11.17 Membership Termination

A Director's membership in the Board shall be terminated upon the end of the Board's term or the termination of that Director's membership on the Board pursuant to any applicable laws, regulations or instructions in the Kingdom. Moreover, membership shall end by resignation or death, or if it is proved to the Board of Directors that a director has breached their duties in a manner detrimental to the Company's interest, provided that this is accompanied by the approval of the Ordinary General Assembly. In addition, membership shall end if a director is absent from more than three consecutive meetings within one financial year without a reason acceptable to the Board of Directors, if he is declared bankrupt or insolvent under a court judgment, if he submitted a petition for settlement with his creditors, or if he ceases to repay his debts, commits an act of dishonesty and immorality or is condemned of fraud. The Ordinary General Assembly may, at any time, dismiss all or any of the directors, without prejudice to the right of a dismissed director to hold the Company liable if the removal is made without acceptable justification or at an improper time. A director may resign, provided that such resignation is made at a proper time; otherwise, the director shall be liable to the Company for damage resulting from his resignation.

12.11.18 Board Vacancy

If the position of a director becomes vacant, the Board may appoint a temporary director to the vacant position. The appointment shall be made subject to fulfilment of the eligibility requirements determined by SAMA and a letter of no objection to be obtained from SAMA in accordance with the requirements of leadership appointment to financial institutions supervised by SAMA. Such newly appointed director must have the necessary experience and capability. The Ministry of Commerce and Investment and the Capital Market Authority shall be notified of such appointment within five working days from the date of appointment and the appointment shall be submitted to the Ordinary General Assembly at its first meeting. The new director shall complete the remainder of the term of his predecessor. Should the number of Directors fall below the minimum legally required number for the Board's meetings, the current Directors shall invite the Ordinary General Assembly to convene within sixty (60) days to elect the required number of Directors.

12.11.19 Powers of the Board

Without prejudice to the financial laws and their implementing regulations and taking into account the powers of the General Assembly, the Board of Directors shall have broad powers to manage the Company and conduct its affairs inside and outside the Kingdom. The Board shall have the right to sign all types of contracts, documents and instruments, including without limitation, memorandums of incorporation of companies in which the Company has shares and all amendments and annexes thereto. The Board shall be entitled to sign amendment decisions, agreements and instruments before public notaries and official authorities, and issue legal official powers of attorney on behalf of the Company.

The Board shall have the right to appoint and dismiss employees and representatives and determine their salaries and remuneration, perform acts including purchase, conveyance and acceptance thereof, receipt, delivery, lease, collection, payment, opening of accounts and credits, withdrawal and deposit with banks, issue bank guarantees, sign all papers, documents, checks and commercial papers and conduct all banking transactions.

The Board of Directors shall have the right to borrow funds from local or foreign financial institutions and banks, either under or without guarantees, for the purpose of providing for the financing needs of the Company's business, issue debt instruments, financial derivatives and securitization (sale of receivables) subject to the applicable laws and instructions in the Kingdom, and sign commercial papers and guarantees. The Board may make provisions for possible credit and operational losses and use them at its discretion and in accordance with SAMA instructions issued in this regard.

The Board of Directors may delegate any of its powers to its Chairman and/or any Director, any committee composed of Directors or any of the employees. Moreover, the Board may, from time to time, delegate to any person a specific power or powers for such period as the Board deems appropriate. In addition, the Board may develop an administrative charter to regulate the Company's business and relationships with third parties, and draw up regulations. It shall form specialized working committees and determine their powers, authorities, and the mechanism for their selection.

The Board of Directors shall have broad powers to manage the Company and conduct its affairs, dispose of assets, properties and real estate. It shall have the right to buy, sell, accept, pay the price, mortgage, and redeem mortgage, transfer title, and receive the price, provided that the following is observed in the Board of Directors minutes and reasons for the resolution on disposal of the Company's properties:

1. The Board shall specify in its resolution the justification for such an action.
2. The sale shall be for an equivalent or higher value.
3. The payment of the price for such transaction is not deferred except in certain cases and with sufficient guarantees.
4. Such action shall not force the Company to discontinue some of its activities, or incur other liabilities.

The Board of Directors may establish rules and regulations that do not conflict with the Bylaws or any of the relevant regulations in order to cover all matters that require provisions in order to implement the Bylaws and the Company's Memorandum of Association. In particular, without prejudice to the generality of the foregoing powers, these rules and regulations may provide for:

1. Conducti and management of elections under the Bylaws, including the final decision on doubts and disputes concerning the validity of an election.

2. Appointment of Board Committees and determination of their powers and tasks.
3. The opening, management and conduct of branches and agencies.
4. Delegation of the powers, authorities and disposition rights of the Board to any official, person, institution or company in accordance with the Bylaws.
5. Such action shall not force the Company to discontinue some of its activities, or incur other liabilities.

12.11.20 Director Remuneration

Remuneration of the Directors and the Board's committees and allowance for attending meetings of the Board and its committees shall be a lump sum, within the limits stipulated by the Companies Law and its regulations and the instructions issued by the competent authorities in this regard. The Company shall also reimburse the Chairman and each Director for the actual expenses they incurred to attend meetings of the Board and its committees, including travel and accommodation expenses. The Company shall ensure that all written details of the proposed remuneration and compensation are provided to the Shareholders prior to the date of the Ordinary General Assembly in which such will be discussed and voted on. The Company shall ensure that the Ordinary General Assembly's approval of the remuneration and compensation terms takes place in a general assembly in which the concerned directors do not have the right to vote on such terms.

The Board's report to the Ordinary General Assembly shall include a comprehensive statement of all the amounts received by the Doctors during the financial year, including remuneration, expense allowance, and other benefits. Such report shall also include a statement of the earnings of the Directors in their capacities as employees or managers of the Company and their earnings for any technical, administrative or advisory work provided for the Company. The report shall also include a statement of the number of meetings of the Board of Directors and the number of meetings attended by each Director from the date of the last meeting of the Ordinary General Assembly.

12.11.21 The Authorities of the Chairman, Vice Chairman, Managing Director, and Secretary

After obtaining a letter of no objection from SAMA in advance and subject to the approval of the competent authorities, the Board of Directors shall appoint from among its members a Chairman and a Vice Chairman. It may appoint a Managing Director, however, no director can be a chairman and appointed to any other executive position in the Company. The Vice Chairman shall replace the Chairman in case of the latter's absence.

Without prejudice to the financial laws and their implementing regulations, the Chairman of the Board shall have the following authorities:

a- Representing the Company in its relations with third parties, governmental and private bodies, before the Sharia courts, the Board of Grievances, arbitral tribunals, committees, arbitrators, all courts, judicial or quasi-judicial bodies, committees and circuits, labor offices, high and preliminary labor committees, arbitral tribunals, civil rights bodies, police stations, other government agencies, chambers of commerce and industry, private entities and bodies, companies and institutions of all kinds.

b- Entering in tenders, receiving and making payments, making acknowledgment, claim, defenses, litigation, conciliation, acceptance and denial of judgments, arbitration on behalf of the Company, requesting judgement execution and challenging judgments, and receiving amounts upon execution thereof.

c- Lodging claims, litigation, making pleading and defenses, hearing and responding to claims, making acknowledgement, objection, assignment, reconciliation and discharge, requesting seizure and execution, requesting arbitration, appointing experts and arbitrators, requesting execution of, accepting, denying and objecting to judgments, lodging and challenging appeals, receiving amounts under checks in the name of the Company, receiving instruments of judgments, requesting withdrawal of judges, lodging impleader and involvement in claims before all the Sharia and administrative courts (the Board of Grievances), the committees of financial and banking disputes, offices for settlement of commercial and banking paper disputes, all other judicial committees, the Control and Investigation Board, and the Public Prosecution.

d- The right to make recourse to and sign before SAGIA and CMA, enter into tenders and receive forms.

e- Delegating some or all of his powers to any Director or any of employees thereof.

The Managing Director shall have all powers to carry out the necessary management functions and execute decisions of the Board of Directors and Shareholders' General Assemblies and such other powers as may be determined or assigned thereto by the Board.

The Board of Directors shall determine, in its sole discretion and under a decision, special remuneration for the Chairman and the Managing Director, provided that the special remuneration does not exceed the limits stipulated by the Companies Law and its regulations and the instructions issued by the competent authorities in this regard.

The Board of Directors shall also appoint a Board Secretary to be selected from among its members or others. The Secretary shall be responsible for recording the minutes of Board meetings, recording and keeping the decisions issued by such meetings, in addition to exercising the other functions entrusted to it by the Board of Directors. The term of office of the Chairman, the Managing Director and the Secretary if a Director shall not exceed their membership on the Board. They may be re-elected and the Board may at any time dismiss any of them without prejudice to their right to compensation if the dismissal occurs for an illegal reason or at an inappropriate time.

12.11.22 Meetings of the Board of Directors

The Board of Directors shall meet at least four (4) times per year, provided that the interval between meetings not exceed three (3) months. The Chairman shall call the Board of Directors to meet whenever a meeting is requested by two (2) Directors. The call shall be documented in the way deemed proper by the Board.

12.11.23 Board Meeting Quorum

A meeting of the Board shall not be valid unless attended by at least five (5) members. A member may appoint another member to attend and vote at Board meetings on their behalf in accordance with the following rules:

- a- A Director may not represent more than one member at the same meeting;
- b- The representation shall be in writing; and
- c- A Director representing another Director may not vote on resolutions that the principal is prohibited from voting on under the law.

12.11.24 Board Deliberations

Deliberations and resolutions of the Board shall be recorded in minutes to be signed by the Chairman, the Directors present and the Secretary. Such minutes shall be entered in a special register which shall be signed by the Chairman and the Secretary.

12.11.25 Direct Financing

The Company may obtain direct financing from institutions within the Kingdom. The Company may also obtain direct financing from institutions outside the Kingdom after obtaining a letter of no objection from SAMA.

12.11.26 Board Decisions

Resolutions shall be valid if voted for by a majority of the Directors present. In the event of a tie, the meeting chairman shall have the casting vote. Board resolutions may be issued by members voting to pass, unless a member requests in writing that a meeting be held to deliberate such resolution. In this case, such resolutions shall be submitted to the Board in its next meeting. A Director who has a direct or indirect interest in any proposed matter presented to the Board or its other committees shall notify the Board or the other committees of his interest in the presented matter. Such notification shall be recorded in the minutes of the meeting. Without being excluded from the quorum required for the validity of the meeting, the Director shall abstain from participating in discussions and voting at the Board or other committees with regard to such matter or suggestion. The Chairman shall inform the Ordinary General Assembly, when convened, of the business and contracts in which a Director has a direct or indirect interest.

12.11.27 Issuance of Bonds

Upon a letter of no objection of SAMA and by a resolution of the General Assembly, the Company may issue Sharia-compliant bonds for loans it obtains that are of equal value, negotiable and indivisible. These bonds may be nominal or bearer bonds, provided that the bond remains a nominal bond until payment is made.

12.11.28 Issuance of Sukuk and Bonds

The General Assembly may, upon obtaining a letter of no objection from SAMA, issue bonds and securitize its assets or debts in accordance with Sharia principles.

12.11.29 Loans, Bonds, Debt Instruments and Financing Instruments

In a manner that does not contradict with the provisions of the financing laws and its implementing regulations:

1. The Company may borrow funds and enter into debt contracts in any form in Saudi currency as well as in foreign currencies, subject to the orders, instructions and laws in force. These loans may be secured or non-secured loans, and the Company may, as a security for these loans, issue promissory notes, debt securities and instruments of various types and terms.
2. In accordance with the Capital Market Law, the Company also issue any type of negotiable debt instrument of all types and terms (including, but not limited to, sukuk and bonds, whether subordinated or unsubordinated bonds in any currency), in accordance with the provisions of the relevant laws and regulations, either in one or in several parts of a series of issuances under one or more programs established by the Board from time to time. Such issuance shall be made at such times and amounts and on such terms as may be approved by the Board. The Board shall have the right to take all necessary procedures to issue them.
3. The Company may not issue debt or financing instruments convertible into shares unless a decision is made by an Extraordinary General Assembly, wherein the maximum number of shares, which may be issued in return for such instruments, are determined, whether issued at the same time, in a series of issuances, or in one or more programs designated for issuing debts or financing instruments in accordance with the Companies Law. The Company may convert debt financing instruments into shares in accordance with the Capital Market Law.

12.11.30 Shareholder Assemblies

Each shareholder shall have the right to attend general assemblies and may authorize another shareholder who is not a Director or employee of the Company to attend a General Assembly on their behalf. A General Assembly may be convened and shareholders may participate in its deliberations and vote on its resolutions though means of modern technology, in accordance with the requirements imposed by the competent authority. The Ministry of Commerce and Investment, SAMA and CMA may send one or more representatives to attend General Assemblies as observers.

A. Extraordinary General Assembly

The Extraordinary General Assembly shall hold competence to amend the Bylaws, except for matters where amendment is legally prohibited. In all cases, written approvals from SAMA and the Ministry of Commerce and Investment must be obtained before any amendment is made to the Company's Bylaws. The Extraordinary General Assembly may pass resolutions on matters falling within the competence of the Ordinary General Assembly under the same conditions applicable to the latter.

B. Ordinary General Assembly

With the exception of the matters falling within the competencies of the Extraordinary General Assembly, the Ordinary General Assembly shall hold competence in all matters related to the Company. The Ordinary General Assembly shall meet at least once annually during the six months after the end of the Company's financial year. Ordinary General Assemblies may be called wherever necessary.

C. Convening assemblies

The shareholders' general and special assemblies shall be convened at the invitation of the Board of Directors. The Board of Directors shall call a meeting of the Ordinary General Assembly if so requested by the auditor, the Audit Committee, or one or more shareholders whose ownership percentage represents at least 5% of the share capital. The auditor may call for the Ordinary General Assembly to convene if the Board of Directors fails to do so within thirty (30) days of the auditor's request.

The invitation to the Ordinary General Assembly shall be published in a local newspaper distributed in the city where the head office is located at least twenty-one (21) days prior to the meeting date. The invitation shall include the agenda of the meeting. However, it is sufficient to send the invitation by registered mail to all Shareholders within the time limit mentioned above. A copy of the invitation and agenda shall be sent to the Companies Department at the MoCI, SAMA and the CMA within the period set for publication.

D. Record of attendance at assemblies

Shareholders who wish to attend general or special assemblies shall register their names with the Company's head office before the time set for such meeting. General or special assemblies may be convened and shareholders may participate in its deliberations and vote on its resolutions by means of modern technology, in accordance with the requirements imposed by the competent authority.

E. Ordinary General Assembly quorum

An Ordinary General Assembly shall be valid only if shareholders representing at least half of the share capital are in attendance. If such quorum is not met at the first meeting, a second meeting shall be convened within the following thirty (30) days. The invitation to such meeting shall be published in the manner set out in Article 38 of the Bylaws. The second meeting may be held one hour after the end of the period set for the first meeting. The invitation to the first meeting shall state the possibility of holding a second one. In all cases, the second meeting shall be valid regardless of the number of shares represented therein.

F. Extraordinary General Assembly quorum

An Extraordinary General Assembly shall be valid only if shareholders representing at least two-thirds of the Company's share capital are in attendance. However, if the required quorum is not met, a call for convening a second meeting shall be made in the same manner prescribed in Article 38 of the Bylaws. The second meeting shall be deemed valid if attended by shareholders representing at least one-quarter of the share capital. If such quorum is not met at the second meeting, a call for a third meeting shall be sent in the same manner prescribed in the preceding Article. The third meeting shall be deemed valid, regardless of the number of shares represented therein, upon the approval of the competent authority.

The Board of Directors shall publish, in accordance with Article 65 of the Companies Law, the resolutions adopted by an Extraordinary General Assembly if they include amendment of the Company's Bylaws.

G. Voting in assemblies

Each shareholder shall have a vote for every share represented thereby in the Constituent Assembly and in the Ordinary and Extraordinary Assemblies. Cumulative voting shall be used in electing the Board of Directors. Directors may not participate in voting on resolutions pertaining to their relief from liability for the management of the Company or pertaining to their direct or indirect interest.

H. Assembly resolutions

Resolutions of the Constituent Assembly and Ordinary Assembly shall be adopted by a vote of an absolute majority of the ordinary shares represented in the meeting. Resolutions of the Extraordinary General Assembly shall be adopted by a vote of two-thirds of the ordinary shares represented in the meeting, unless the resolution is related to an increase or decrease of the Company's capital, extension of the Company's duration, early dissolution of the Company, or its merger with another company. In this case, the resolution shall be valid only if adopted by three-quarters of the ordinary shares represented in the meeting. The resolution shall be effective only if approved by SAMA.

I. Deliberation in assemblies

Each Shareholder shall have the right to discuss the items listed in the Assembly's agenda and direct questions in respect thereof to the Directors and the auditors. The Directors or the auditors shall answer the Shareholders' questions to such extent as would not jeopardize the Company's interest. If a shareholder deems the answer to the question unsatisfactory, then they may refer the issue to the General Assembly, and its resolution in this regard shall be conclusive and binding.

J. Chairing of General Assemblies and preparation of minutes

General Assembly meetings shall be presided over by the Chairman, the Vice Chairman upon the absence of the Chairman, or the Director delegated by the Board of Directors for such task, if both the Chairman and the Vice Chairman are absent. The Assembly shall appoint a secretary for the meeting and a canvasser. Minutes shall be written for the meeting which shall include the number of shareholders present in person or represented by proxy, the number of shares held by each, the number of votes attached to such shares, the resolutions adopted at the meeting, the number of votes assenting or dissenting to such resolutions and a comprehensive summary of the discussions that took place at the meeting. Such minutes shall be recorded after each meeting in a special register to be signed by the chairman of the Assembly, the secretary and the canvasser.

12.11.31 Audit Committee

By a resolution of the Company's Ordinary General Assembly, an Audit Committee shall be formed of non-executive Directors, whether shareholders or others, provided that the majority of its members are independent members. The eligibility requirements set by SAMA must be met and a letter of no objection obtained from SAMA. The committee shall have not less than three (3) and not more than five (5) members, in accordance with SAMA conditions and rules. The General Assembly resolution shall specify the committee's functions, the rules of its work, the remuneration of its members and their membership term, based on the recommendation of the Board of Directors.

12.11.32 Auditor

Without prejudice to Article 74 of the Implementing Regulations of the Law on Supervision of Finance Companies, the Company shall have one or more auditors among the auditors licensed to practice the profession in the Kingdom. The Ordinary General Assembly shall appoint, and may reappoint, each such auditor annually and fix the auditor's remuneration and the duration of the auditor's work. It may at any time remove such auditor, without prejudice to their right to compensation if the removal is made at an improper time or without acceptable justification.

No person may hold the office of auditor and, at the same time, take part in founding the Company, be a Director thereof, or perform any technical or administrative work for the Company, even if as an advisor. Moreover, the auditor may not be a partner or an employee of or a relative up to the fourth degree to any founder or Director of the Company. Any work in violation of this shall be null and void.

12.11.33 Financial Year

The Company's financial year shall begin on 1 January and end on 31 December each year, provided that the first financial year start on the date of the Ministerial Resolution announcing the incorporation of the Company and end on 31 December of the next year.

12.11.34 Financial Documents

Without prejudice to the Law on Supervision of Finance Companies and its Implementing Regulations, in particular Article 26 of the Implementing Regulations, at the end of each financial year, the Board of Directors shall prepare the financial statements of the Company and a report on its activities and financial position for such financial year, including the proposed method to distribute the net profits. The Board of Directors shall place such documents at the auditor's disposal at least forty-five (45) days prior to the date set for convening the General Assembly. The Chairman, the chief executive officer and the chief financial officer of the Company shall sign the documents set forth above, and copies thereof shall be deposited at the Company's head office and be made available to the shareholders twenty-one (21) days prior to the date set for the General Assembly. The Chairman shall provide the shareholders with the financial statements of the Company, the Board of Directors' report and the auditor's report, unless they are published in a daily newspaper distributed in the city where the head office of the Company is located. The Chairman shall also send copies of such documents to the Companies Department at the MoCI at least fifteen (15) days prior to the date set for the General Assembly. Within thirty days from the date of the General Assembly approving the financial statements and the reports of the Board of Directors, auditor and Audit Committee, the Board shall file copies of said documents with the MoCI.

12.11.35 Distribution of dividends

Without prejudice to Article 26 of the Implementing Regulations of the Law on Supervision of Finance Companies, dividends shall be distributed after deduction of all expenses, as follows:

1. Ten percent (10%) of the net profit shall be set aside to form a statutory reserve. Such allocations to the statutory reserve may be discontinued by the Ordinary General Assembly when the statutory reserve amounts to thirty percent (30%) of the Company's paid up capital.
2. The Ordinary General Assembly may, at the request of the Board of Directors, withhold a certain percentage of the annual net profits to form a contractual reserve or additional contractual reserves to be allocated for specific purpose(s), determined by the Ordinary General Assembly. The contractual reserve and additional contractual reserves may only be used pursuant to a resolution adopted by the Ordinary General Assembly. If such reserve is not earmarked for a specific purpose, the Ordinary General Assembly may, at the recommendation of the Board of Directors, resolve to spend it in any way beneficial to the Company or the Shareholders.
3. The balance shall be distributed to the Shareholders as a share in the profits or transferred to the retained earnings account.
4. By a resolution of the Board of Directors, interim dividends may be distributed to the Shareholders. Such dividends shall be deducted from the profits specified above, in accordance with the applicable rules issued by the competent authorities.

12.11.36 Company Losses

1. Without prejudice to Article 70 of the Implementing Regulations of the Law on Supervision of Finance Companies, if a joint stock company's losses total half of its paid-up capital at any time during the financial year, any of the Company's officers or auditors must, upon knowledge of such losses, inform the Chairman. The Chairman shall, immediately, inform the Board of such losses, and the Board shall, within fifteen days of its knowledge thereof, call for an Extraordinary General Assembly to convene within forty-five days from the date the Chairman was informed of the losses. Such meeting shall be held to consider whether the Company's capital is to be increased or decreased in accordance with the provisions of the Companies Law such that the losses become less than half of the Company's paid-up capital, or to dissolve the Company before the end of its term as stated in these Bylaws.
2. The Company shall be deemed terminated by force of law if the General Assembly is not convened during the term specified in the above paragraph, if the General Assembly is convened but is unable to adopt a resolution on the matter, or if the General Assembly resolves to increase the capital in accordance with the conditions specified in the above paragraph but the capital increase is not fully subscribed for within 90 days from the date on which the General Assembly adopted the resolution to increase the capital.

12.11.37 Disputes

Each shareholder shall have the right to file a liability action, for the Company, against members of the Board if they have committed an error which has caused some particular damage to said shareholder, provided that the Company's right to file such action remain valid. The shareholder shall notify the Company of their intention to file such action.

12.11.38 Dissolution and Liquidation of the Company

Without prejudice to Article 20 of the Implementing Regulations of the Law on Supervision of Finance Companies, the Company's term shall expire upon the end of the Company's term in accordance with its Bylaws or pursuant to the Companies Law. Upon the end of the Company' term or if the Company is dissolved prior to the end of its term, the Ordinary General Assembly shall, based on a proposal of the Board of Directors, determine the method of liquidation and appoint one or more liquidators. The Assembly shall determine their powers, fees, any restrictions on their powers and the time required for liquidation. The term of voluntary liquidation shall not exceed five years and may be extended only by a judicial order. The powers of the Board of Directors shall cease upon the Company's end. However, the Board of Directors shall remain responsible for the management of the Company and shall be deemed liquidators before third parties, until a liquidator is appointed. General Assemblies shall continue throughout the duration of the liquidation process, but their role shall be limited to exercising their competencies so far as they do not conflict with those of the liquidator.

The Board of Directors acknowledge that the Company's Bylaws shall be amended in accordance with the laws and regulations of the Capital Market Authority upon CMA approval of the Offering.

12.12 Shareholders' Equity

Pursuant to Article 110 of the Companies Law, shares carry equal rights and obligations and confer to a shareholder all the rights attached to the shares, which include in particular the right to receive a share in the profits declared for distribution; the right to a share in the Company's assets upon liquidation; the right to attend General Assemblies and participate in deliberations and vote on resolutions; the right to dispose of shares; the right to have access to Company's records and documents; the right to supervise the acts of the Board of Directors; the right to institute liability proceedings against the Directors; and the right to contest the validity of the resolutions adopted at General Assemblies in accordance with conditions and restrictions prescribed in the Law or the Company's Bylaws.

In accordance with Article 96 of the Companies Law, each shareholder shall have the right to discuss matters on the agenda of the Assembly and direct questions thereon to the Directors and the Auditor. The Directors or the auditors shall answer the Shareholders' questions in a manner that does not prejudice the Company's interest. If the Shareholder deems the answer to the question unsatisfactory, then they may refer the issue to the General Assembly, and its decision in this regard shall be conclusive and binding.

12.13 Change of Shareholders' Rights

The following shareholders' rights are derived from the Companies Law and, therefore, may not be changed or denied to shareholders:

1. Receive a share in the profits declared for distribution, whether the distribution is in cash or through issuing bonus shares for non-employees of the Company and its subsidiaries;
2. Receive a percentage of the Company's assets upon liquidation;
3. Attend shareholders' general or special assemblies, participate in its deliberations, and vote on resolutions;
4. Dispose of their shares in accordance with the provisions of the Bylaws;
5. Have access to the Company's books and documents, monitor the acts of the Board of Directors, file a liability claim against the Directors and contest the validity of resolutions adopted in shareholders' general and special assemblies;
6. Have a priority right to subscribe for new shares issued against cash dividends unless the Extraordinary General Assembly decides otherwise in accordance with the Company's Bylaws, and
7. Increase financial burdens on shareholders without their consent.

12.14 Description of Shares

12.14.1 Company's Share Capital

The capital of the Company is nine hundred six million (906,000,000) Saudi riyals, divided into ninety million, six hundred thousand (90,600,000) nominal shares of equal value; the nominal value is ten (10) Saudi riyals per share, and all shares are ordinary and cash shares, resulting in equal rights or obligations for all shareholders.

12.14.2 Ordinary Shares

Shares shall be nominal shares, and may not be issued at less than their nominal value. However, the shares may be issued at a value higher than their nominal value, in which case the difference in value shall be added as a separate item in the shareholders' equity. They may not be distributed as dividends to the shareholders. A share shall be indivisible vis-à- vis the Company. In the event that a share is owned by several persons, they shall select one person from amongst them to exercise, on their behalf, the rights pertaining to the share, and they shall be jointly responsible for the obligations arising from ownership of the share.

12.14.3 Preferred Shares

The Company's Extraordinary General Assembly may, based on the rules set by the competent authorities, issue preferred shares, decide to purchase the same or convert ordinary shares into preferred shares or vice versa. Preferred shares do not give their holders the right to vote at shareholders' general assemblies. However, such shares give their holders the right to a higher percentage of net profits than the percentage allotted to the holders of ordinary shares, after setting aside the statutory reserve.

12.14.4 Buyback

The Company may purchase or pledge its shares in accordance with the measures imposed by the competent authority. Shares held by the Company shall not have any votes in shareholders' assemblies. The Company may also purchase its preferred shares.

12.14.5 Trading of Shares

Trading of shares shall be subject to the rules and regulations applicable to the companies listed in Tadawul after completion of the Offering.

12.14.6 Shareholders' equity

Pursuant to Article 110 of the Companies Law, shares carry equal rights and obligations and confer to a shareholder all the rights attached to the shares, which include in particular the right to receive a share in the profits declared for distribution; the right to a share in the Company's assets upon liquidation; the right to attend General Assemblies and participate in deliberations and vote on resolutions; the right to dispose of shares; the right to have access to Company's records and documents; the right to supervise the acts of the Board of Directors; the right to institute liability proceedings against the Directors; and the right to contest the validity of the resolutions adopted at General Assemblies in accordance with conditions and restrictions prescribed in the Law or the Company's Bylaws.

In accordance with Article 96 of the Companies Law, each shareholder shall have the right to discuss matters on the agenda of the Assembly and direct questions thereon to the Directors and the Auditor. The Directors or the auditors shall answer the Shareholders' questions in a manner that does not prejudice the Company's interest. If the Shareholder deems the answer to the question unsatisfactory, then they may refer the issue to the General Assembly, and its decision in this regard shall be conclusive and binding.

12.14.7 General Assemblies

A properly constituted General Assembly shall represent all shareholders and shall be held in the city where the Company is headquartered. Except for matters falling within the jurisdiction of the Extraordinary General Assembly, the General Assembly shall deal with all matters pertaining to the Company and shall be convened at least once a year within the six months following the end of the Company's financial year. Other Ordinary General Assembly meetings may be called when necessary.

An Extraordinary General Assembly of Shareholders shall be competent to amend the provisions of the Company's Bylaws, other than those provisions whose amendment is prohibited by law. An Extraordinary General Assembly may adopt resolutions on matters falling within the competence of the Ordinary General Assembly under the same conditions and circumstances applicable to the latter.

12.14.8 Convening General Assemblies

General and special assemblies shall be convened at the invitation of the Board of Directors. The Board of Directors shall call for an Ordinary General Assembly, if requested to do so by the auditor, Audit Committee or a number of Shareholders representing at least 5% of the capital. The auditor may call a General Assembly if the Board of Directors does not call the assembly to convene within thirty days from the date of auditor's request. The invitation to the General Assembly shall be published in a daily newspaper distributed at the Company's head office at least twenty-one days prior to the date set for the Assembly. However, it is sufficient to send the invitation by registered mail to all Shareholders within the mentioned time limit. The invitation shall include the agenda, and a copy of the invitation and agenda shall be sent to the Companies Department at the MoCI, SAMA and the CMA within the period set for publication.

12.14.9 Ordinary General Assembly Quorum

A meeting of the Ordinary General Assembly shall not be **valid** unless attended by Shareholders representing at least half of the share capital. If such quorum is not met at the first meeting, an invitation shall be sent for a second meeting to be held within thirty days following the previous meeting. The invitation to such meeting shall be published in the manner set out in Article 38 of the Bylaws. The second meeting may be held one hour after the end of the period specified for the first meeting. The invitation to first meeting shall state the possibility of holding a second one. In all cases, the second meeting shall be valid regardless of the number of shares represented therein.

12.14.10 Extraordinary General Assembly Quorum

An Extraordinary General Assembly shall be valid only if shareholders representing at least two-thirds of the Company's share capital are in attendance. However, if the required quorum is not met, a call for convening a second meeting shall be made in the same manner prescribed in Article 38 of the Bylaws. The second meeting shall be deemed valid if attended by shareholders representing at least one-quarter of the share capital. If the required quorum is not met in the second meeting, there shall be an invitation for a third meeting in accordance with Article 38 of the Companies Law, and the third meeting shall be deemed valid irrespective of the number of shares represented therein.

12.14.11 Voting Rights

Votes in the Constituent Assembly, Ordinary General Assembly and the Extraordinary General Assembly are tallied based on one vote for each share. Cumulative voting shall be used in the election of Directors, where voting rights may not be exercised more than one time. Directors may not participate in voting on resolutions pertaining to their relief from liability for the management of the Company or pertaining to their direct or indirect interest.

12.14.12 Duration of the Company

The term of the Company shall be 99 years, commencing from the issue date of the ministerial resolution announcing the Company's incorporation. The term of the Company may be extended by a resolution issued by the Extraordinary General Assembly at least one year prior to the expiration of its term.

12.14.13 Dissolution and Liquidation of the Company

Without prejudice to Article 20 of the Implementing Regulations of the Law on Supervision of Finance Companies, the Company's term shall expire upon the end of the Company's term in accordance with its Bylaws or pursuant to the Companies Law. Upon the end of the Company' term or if the Company is dissolved prior to the end of its term, the Extraordinary General Assembly shall, based on a proposal of the Board of Directors, determine the method of liquidation and appoint one or more liquidators. The Assembly shall determine their powers, fees, any restrictions on their powers and the time required for liquidation. The term of voluntary liquidation shall not exceed five years and may be extended only by a judicial order. The powers of the Board of Directors shall cease upon the Company's end. However, the Board of Directors shall remain responsible for the management of the Company and shall be deemed liquidators before third parties, until a liquidator is appointed. General Assemblies shall continue throughout the duration of the liquidation process, but their role shall be limited to exercising their competencies so far as they do not conflict with those of the liquidator.

12.14.14 Change of Shareholders' Rights

The rights of shareholders to receive a share in the Company's profits to be distributed, receive a share in the Company's assets upon liquidation, attend general and special assemblies and participate in deliberations and vote on resolutions, dispose of shares, access the Company's books and documents, monitor the acts of the Board of Directors, institute proceedings against the Directors and contest the validity of the resolutions adopted at general and special assemblies (in accordance with the conditions and restrictions set forth in the Companies Law and the Bylaws) are granted pursuant to the Companies' Law and, therefore, may not be changed or denied to shareholders.

13. Underwriting

The Company, its shareholders and the Underwriter (NCB Capital) have entered into an Underwriting Agreement ("Underwriting Agreement"), under such agreement the Underwriter has agreed to fully underwrite the Offering of 27,180,000 shares, subject to certain terms and conditions of the Underwriting Agreement. The name and address of the Underwriter are set out below:

13.1 Underwriter

NCB Capital (Alahli Capital)
King Saud Road, NCB Regional Building P.O. Box 22216 ،Riyadh 11495 Kingdom of Saudi Arabia Tel: +966 (11) 874 7106 Fax: +966 (11) 406 0049 Website: www.alahlicapital.com Email: ncbc.cm@alahlicapital.com

13.2 Summary of Underwriting Agreement

Pursuant to the terms and conditions of the Underwriting Agreement:

a- The Selling Shareholders undertake to the Underwriter that, on the first business day after the CMA approves the allocation of the Offer Shares following the end of the Offering Period for Individual, they shall:

1. Sell and allocate the Offer Shares to any Individual Subscribers or Institutional Subscribers for Offer Shares whose applications have been accepted by Receiving Entities; and
2. Sell and allocate to the Underwriter the Offer Shares that are not purchased by Individual Subscribers or Institutional Subscribers pursuant to the Offering.

b- The Underwriter undertakes to the Selling Shareholders that it will, on the allocation date, purchase the Shares that are not subscribed for by the Individual Subscribers or Institutional Subscribers whose requests were approved. The Company and the Selling Shareholders for the benefit of the Underwriter undertake that they shall comply with the entire Prospectus and all terms of the Underwriting Agreement.

13.3 Underwriting Costs

The Selling Shareholders will pay to the Underwriter an underwriting fee based on the total value of the Offering. In addition, the Selling Shareholders agreed on behalf of the Company to pay the Underwriter's costs and expenses in connection with the Offering.

14. Expenses

The Selling Shareholders will be responsible for all costs associated with the Offering, which are estimated at approximately SAR 15,000,000. These expenses include the fees of the Financial Advisor, the Underwriter, the Lead Manager, the Bookrunner, the legal advisor, the auditors and the Market Consultant, in addition to receiving entity fees and marketing, printing, distribution and other related expenses. The Offering expenses will be deducted from the Offering proceeds. The Company will not be responsible for payment of Offering-related expenses.

15. Undertakings

a- After listing, the Company undertakes the following: Fill the form (8) related to compliance with the Corporate Governance Regulations, if the Company does not comply with any of the requirements of the Corporate Governance Regulations, then it must explain the reasons for this.

b- Notify the CMA of the date of the first General Assembly after listing, in order to its representative to attend

c- Submitting any business and contract in which any member of the Board of Directors has a direct or indirect interest to the General Assembly for the board clearance, in accordance with the Companies Law and the Corporate Governance Regulations. (The clearance should be renewed every year, provided that the board member, who is interested, is prevented from participating in voting on the resolution issued in this regard in the Board of Directors and the General Assembly. For further details regarding transactions and contracts with related parties, please refer to Section 12-5-10 (Agreements with Related Parties)

d- Disclose any material developments related to the Company

e- Comply with all mandatory articles of the Rules on the Offer of Securities Offering and Continuous Obligations, Listing Rules and Corporate Governance Regulations immediately after listing

16. Waivers

The Company has not applied for any exemption from any regulatory requirements from the CMA.

17. Share Information and Subscription Terms and Conditions

The Company has submitted an application to the CMA for the registration and offer of the Shares in accordance with the Rules on the Offer of Securities and Continuing Obligations, and the Listing Rules issued by the Capital Market Authority pursuant to Resolution No. 3-123-2017 dated 01/02/1440H (corresponding to 30/09/2019G) as amended by Resolution No. 1-104-2019 dated 07/08/1439H (corresponding to 23/04/2018G). The Company has also submitted an application to list the Shares on Tadawul in accordance with the Listing Rules issued by the CMA Board Decision dated 09/04/1439H (27/12/2017G) as amended by Decision No. (1-104-2019) dated 01/02/1441H (corresponding to 30/09/2019G).

All subscribers must read the subscription terms and conditions carefully before completing the Subscription Application Form. Signing the Subscription Application Form and delivering it to the Receiving Entity is deemed as acceptance of the subscription terms and conditions.

17.1 Subscription for Offer Shares

The Offering will consist of twenty-seven million, one hundred eighty thousand (27,180,000) ordinary shares with a fully paid nominal value of SAR 10 per share. The Offer Shares represent thirty percent (30%) of the Company's share capital and are offered at a price of (16) Saudi riyals per share with a total value of (434,880,000) million Saudi riyals. The Offering is restricted to the following groups of Subscribers:

Tranche (A): Participating Parties: This tranche comprises a number of institutions and companies, including investment funds, qualified foreign investors, and Gulf investors with legal personality. Participating Parties will initially be allocated twenty-seven million, one hundred eighty thousand (27,180,000) ordinary shares, representing one hundred percent (100%) of the Offer Shares and the final allocation will be made after the end of the Individual Subscribers' subscription. In the event that Individual Subscribers subscribe for the Offer Shares allocated thereto, the Bookrunner shall have the right to reduce the number of Offer Shares allocated to Participating Parties to twenty-four million, four hundred sixty-two thousand (24,462,000) shares, representing ninety percent (90%) of the Offer Shares.

Tranche (B): Individual Subscribers: This tranche comprises Saudi natural persons including any divorced or widowed Saudi woman having minor children from a marriage to a non-Saudi individual, who is entitled to subscribe to the Offer Shares for her own benefit, in the names of her minor children, on the condition that she proves that she is divorced or widowed and the mother of her minor children, any non-Saudi natural person who is resident in the Kingdom who has a bank account with one of the Receiving Entities and GCC natural persons. A subscription for Shares by a person in the name of his divorcee shall be deemed invalid and if a transaction of this nature is proved to have occurred, the law shall be enforced against the applicant. A maximum of two million, seven hundred eighteen thousand (2,718,000) Offer Shares representing ten percent (10%) of the Offer Shares shall be allocated to Individual Subscribers. If the Individual Subscribers do not subscribe for all the Shares allocated to them, the Bookrunner may reduce the number of Shares allotted to them in proportion to the number of Shares to which they subscribed.

17.2 Book-building for Participating Parties

a- The Financial Advisor will determine the price range for the purposes of book-building, which will be made available to all Participating Parties.

b- Each of the Participating Parties must submit an offer to purchase the Offer Shares during the book building period by filling out and submitting the application form. Participating Parties may change or cancel their application forms at any time during the book-building process, provided such change is made by submitting an amended or additional application form, where applicable, before the offer price is determined, which will take place before the start of the Offering Period for Individual. The number of Offer Shares to be subscribed by each Participating Party shall neither be less than 100,000 Shares nor more than 4,529,999 Shares. Public investment funds must not exceed the maximum amount specified for each participating fund determined in accordance with Book Building Instructions. The number of requested Shares shall be subject to allocation. The Bookrunner will notify the Participating Parties of the Offer Price and the number of Offer Shares initially allocated thereto. Subscriptions by Participating Entities shall commence during the Offering Period for Individual, which also includes the Individual Subscribers, in accordance with the terms and conditions detailed in the subscription application forms.

c- Following completion of book-building for the Participating Entities, the Bookrunner will announce the coverage percentage for the Participating Parties.

d- The Bookrunner and the Company will have the power to determine the Offer Price based on the forces of supply and demand, provided that it does not exceed the price set out in the underwriting agreement and that the Offer Price is in accordance with the tick size applied by Tadawul.

17.3 Subscription by Individual Subscribers

Each Individual Subscriber shall subscribe for a minimum of ten (10) Offer Shares and a maximum of one million (1,000,000) Offer Shares. No change or withdrawal of Subscription Application Forms shall be permitted once the Subscription Application Form has been submitted.

Subscription Application Forms will be available during the Offering Period for Individual on Receiving Entities' websites. Subscription Application Forms shall be completed in accordance with the instructions mentioned below. Individual Subscribers can subscribe through the Internet, telephone banking or automated teller machines of any of the Receiving Entities that provide any or all such services to its customers, provided that:

a- The Individual Subscriber has a bank account at a Receiving Entity which offers such services;

b- No changes have been made to the personal information or data of the Individual Subscriber since their subscription in the last offering; and

c- Individual Subscribers who are not Saudi or GCC nationals must have an account at one of the Authorized Persons which offer such services.

A signed Subscription Application Form represents a legally binding agreement between the Company and the relevant Individual Subscriber submitting the application to the Receiving Entities.

Individual Subscribers may obtain a copy of this Prospectus and the Subscription Application Form from the websites of the following Receiving Entities (the Prospectus is also available on the websites of the CMA, the Financial Advisor and the Company):

The Saudi Investment Bank Al-Madhar Street P.O. Box 3533 Riyadh 11481 Kingdom of Saudi Arabia Tel: +966 (11) 478 6000 Fax: +966 (11) 477 6781 Website: www.saib.com.sa E-mail: ir@saib.com.sa	
NCB King Abdul Aziz Road P.O. Box 3555, Jeddah 21481 Kingdom of Saudi Arabia Tel: +966 (12) 649 3333 Fax: +966 (12) 643 7426 Website: www.Alahli.com.sa E-mail: contactus@alahli.com	
Al Rajhi Bank Olaya Road P.O. Box 28, Riyadh 11411 Kingdom of Saudi Arabia Tel: +966 (11) 211 6000 Fax: +966 (11) 460 0705 Website: www.alrajhibank.com.sa E-mail: contactcentre1@alrajhibank.com.sa	

Bank AlJazira
King Fahd Road
P.O. Box 20438, Riyadh 11455
Kingdom of Saudi Arabia
Tel: +966 (11) 2256000
Fax: +966 (11) 2256068
Website: www.aljaziracapital.com.sa
E-mail: contactus@aljaziracapital.com.sa

17.4 Offering Period for Individual and Conditions for Individual Subscribers

The Receiving Entities will commence receiving Subscription Application Forms at their branches throughout Saudi Arabia from 11/11/1441H (corresponding to 02/07/2020G) to 14/11/1441H (corresponding to 05/07/2020G). Once the Subscription Application Form is signed and submitted, the Receiving Entity will stamp it and provide the Applicant with a copy thereof. In the event the information provided in the Subscription Application Form is incomplete or inaccurate, or not stamped by the Receiving Entity, the Subscription Application Form will be considered void. Each Subscriber is required to specify the number of Offer Shares applied for in the Subscription Application Form, in addition to sufficient funds in an amount equal to the number of Offer Shares applied for multiplied by the Offer Price of (16) Saudi riyals per Share.

Subscriptions for less than 10 Offer Shares or fractional numbers will not be accepted. Increments are to be made in multiples of 10. The maximum number of Shares to be applied for by each Individual Subscriber is one million (1,000,000) Offer Shares.

Subscription Application Forms should be submitted during the Offering Period for Individual and accompanied, where applicable, with the following documents. The Receiving Entities shall verify all copies against the originals and will return the originals to the Subscriber:

- The original and copy of the national civil identification card (Individual Subscribers);
- The original and copy of the family identification card (when subscribing on behalf of family members);
- The original and copy of a power of attorney (when subscribing on behalf of family members);
- The original and copy of certificate of guardianship (when subscribing on behalf of orphans);
- The original and copy of the divorce certificate (when subscribing on behalf of the children of a divorced Saudi woman);
- The original and copy of the death certificate (when subscribing on behalf of the children of a widowed Saudi woman); and
- The original and copy of the birth certificate (when subscribing on behalf of the children of a divorced or widowed Saudi woman).

Powers of attorney are only allowed for family members (parents and children only). In the event an application is made on behalf of a Subscriber (parents and children only), the name of the person signing on behalf of the Subscriber should be stated in the Subscription Application Form. The power of attorney must be issued by a notary public for those who are in Saudi Arabia and must be legalized through a Saudi embassy or consulate in the relevant country for a Saudi Individual Subscriber residing outside Saudi Arabia.

It is sufficient to fill out one Subscription Application Form for the prime Subscriber and family members appearing on his family identification card if they apply for the same number of Offer Shares as the prime Subscriber. In this case:

1. All Offer Shares allocated to the prime Subscriber and dependent Subscribers will be registered in the prime Subscriber's name;
2. The prime Subscriber will receive any refund in respect of amounts not allocated and paid for by himself or dependent Subscribers; and
3. The prime Subscriber will receive all dividends distributed in respect of the Offer Shares allocated to himself and dependent Subscribers (in the event the Shares are not sold or transferred).

Separate Subscription Application Forms must be used if:

1. The Offer Shares to be allocated are to be registered in a name other than the name of the prime Subscriber;
2. Dependent Subscribers intend to apply for a different number of Offer Shares than the prime Subscriber; and
3. The wife intends to subscribe in her name adding allocated Offer Shares to her account (she must complete a separate Subscription Application Form from the Subscription Application Form completed by the relevant prime Subscriber). In the latter case, applications made by husbands on behalf of their spouses will be canceled and the wives' independent application will be processed by the Receiving Bank.

A Saudi female divorcee or widow who has minor children from a marriage to a non-Saudi husband may subscribe on behalf of those children provided she submits proof of motherhood.

During the Offering Period for Individual, only a valid Iqama will be an acceptable form of identification for non–Saudi dependents. Passports or birth certificates will not be accepted. Non-Saudi dependents can only be included as dependents with their mother and cannot subscribe as prime Subscribers. The maximum age for non-Saudi dependents to be included with their mother is 18. Any documents issued by a foreign government must be legalized through a Saudi embassy or consulate in the relevant country.

Each Subscriber agrees to subscribe for and purchase the number of Offer Shares specified in its Subscription Application Form for an amount equal to the number of Offer Shares applied for multiplied by the Offer Price of (16) Saudi riyals per Offer Share. Each Subscriber shall be deemed to have acquired the number of Shares allocated to them upon:

1. Delivery by the Subscriber of the Subscription Application Form to any Receiving Entity; and
2. Payment in full by the Subscriber to the Receiving Entity of the total value of the Offer Shares subscribed for.

The total value of the Offer Shares subscribed for must be paid in full at a branch of the Receiving Entities by depositing the related value into the Subscriber's account held with the Receiving Entity where the Subscription Application Form is being submitted.

If a submitted Subscription Application Form is not in compliance with the terms and conditions of the Subscription, the Company shall have the right to reject, in full or in part, such application. The applicant shall accept any number of Shares allocated thereto unless the allocated Shares exceed the number of Offer Shares they applied for.

17.5 Allocation of Shares and Refund of Excess Subscription Monies

The Lead Manager and the Receiving Entities shall open and operate escrow accounts named ("**IPO Account**"). Each of the Receiving Entities shall deposit all amounts received by the Subscribers into the escrow accounts mentioned above.

The announcement of the final allocation on 21/11/1441H (corresponding to 12/07/2020G) and the refund of excess subscription monies, if any, will be made no later than 23/11/1441H (corresponding to 14/07/2020G).

17.6 Allocation of Offer Shares to Institutional Subscribers

The final allocation of Offer Shares to Institutional Subscribers will, after completion of the allocation of Offer Shares to Individual Subscribers, be determined by the Bookrunner and the Financial Advisor in coordination with the Company at its discretion, provided that the Offer Shares initially allocated to Institutional Subscribers is not less than 27,180,000 Shares, representing 100% of the Offer Shares. In the event that Individual Subscribers subscribe for the Offer Shares allocated thereto, the Lead Manager shall have the right to reduce the number of Offer Shares allocated to Participating Entities to 24,462,000 Shares, representing 90% of the Offer Shares after the completion of the subscription process for Individual Subscribers.

17.7 Allocation of Offer Shares to Individual Subscribers

The minimum number of Shares to be allocated to each Individual Subscriber shall be 10 Offer Shares and the remaining Offer Shares, if any, will be allocated to Individual Subscribers on a pro-rata basis based on the ratio of the number of Shares requested by each Individual Subscriber to the total number of Shares applied for. The Lead Manager reserves the right to increase the number of Shares allocated to Individual Subscribers to 10% of the Offer Shares and to decrease the number of Shares allocated to Participating Parties to 90% of the Offer Shares. In the event that the number of Individual Subscribers exceeds 271,800 Subscribers, the Company will not guarantee the minimum allocation of 10 shares per Individual Subscriber and the allocation will be determined at the discretion of the Company and the Financial Advisor.

The announcement of the final number of the Offer Shares to be allocated to each Subscriber on 21/11/1441H (corresponding to 12/07/2020G), as well as excess subscription monies, if any, will be made no later than 23/11/1441H (corresponding to 14/07/2020G).

The Receiving Entities will notify the Subscribers of the final number of Offer Shares to be allocated to each one of them, together with the amounts to be refunded. Excess subscription monies, if any, will be refunded to the Subscribers in whole without any deductions or fees and will be deposited in the Subscribers' accounts at the relevant Receiving Entity. The announcement of the final allocation will be made on 21/11/1441H (corresponding to 12/07/2020G) and the refund of excess subscription monies will be made no later than 23/11/1441H (corresponding to 14/07/2020G). Subscribers should communicate with the branch of the Receiving Entities where they submitted their Subscription Application Form, as applicable, for any further information.

Circumstances where Listing may be Suspended or Canceled.

Listing suspension or cancellation

a- The CMA may suspend stock trading or cancel the listing at any time it deems fit, in any of the following circumstances:

- The CMA considers it necessary for the protection of investors or the maintenance of an orderly market;
- The Issuer fails, in a manner which the CMA considers material, to comply with the Capital Market Law, its Implementing Regulations or Exchange rules;
- The Issuer fails to pay any fees due to the CMA or Tadawul or penalties due to the CMA on time;
- The CMA considers that the Issuer, its business, the level of its operations or its assets are no longer suitable to warrant the continued listing of its securities on the Exchange;
- When a reverse takeover announcement does not contain sufficient information about the proposed transaction. In the event that the Issuer has given sufficient information regarding the target and the CMA is convinced, after the announcement of the Issuer, that sufficient public information is available on the proposed transaction of the reverse takeover, the CMA may decide not to suspend trading at this stage; or
- When information about the proposed transaction of reverse takeover is leaked and the Issuer cannot accurately assess its financial position and the Exchange cannot be informed accordingly.

b- Lifting of the trading suspension under Paragraph (a) above is subject to the following:

1. Adequately addressing the conditions that led to the suspension and the lack of the need to continue the suspension for the protection of investors;
2. The lifting of suspension being unlikely to affect the normal activity of the Exchange; and
3. The issuer complying with any other conditions that the CMA may require.

c- Tadawul shall suspend the trading of securities of an Issuer in any of the following cases:

1. When the Issuer does not comply with the deadlines for the disclosure of its periodic financial information in accordance with the Rules on the Offer of Securities and Continuing Obligations, until the disclosure thereof;
2. When the Auditor's report on the financial statements of the Issuer contains an opposing opinion or an abstention from expressing an opinion, until the opposing opinion or abstention from

expressing an opinion is removed;

3. If the liquidity requirements of Chapters 2 and 8 of the Listing Rules are not met after listing by the time limit set by the Exchange for the Issuer to rectify its conditions, unless the CMA agrees otherwise; or
4. The Issuer's extraordinary general assembly issues a decision to reduce its capital, for the two trading days following issuance of the decision.

d- The Exchange may at any time propose to the CMA to suspend the trading of any listed security or cancel its listing where in its opinion any of the circumstances of Paragraph (a) of this Article is likely to occur.

e- An issuer whose securities are subject to a trading suspension must continue to comply with the Capital Market Law, its Implementing Regulations and the Exchange Rules.

f- In the event that the listing suspension continues for six (6) months with no appropriate procedure made by the Issuer to correct such suspension, the CMA may cancel the Issuer's listing.

g- Upon the Issuer's completion of a reverse takeover, the listing of the Issuer's shares shall be cancelled. Should it wish to re-list its securities, the Issuer must submit a new application for listing in accordance with the Exchange rules and the requirements stipulated in the Rules on the Offer of Securities and Continuing Obligations.

h- The above paragraphs shall not prejudice the suspension of trading and cancellation of listing resulting from Company losses pursuant to the relevant implementing regulations and Exchange rules.

17.8 Voluntary Cancellation of Listing

a- An Issuer whose securities have been listed on Tadawul may not cancel the listing of its securities without the prior approval of the CMA. To obtain CMA approval, the Issuer must submit the cancellation application to the CMA, along with a simultaneous notice to Tadawul. The application shall include the following:

1. Specific reasons for the cancellation request;
2. A copy of the disclosure described below;
3. A copy of the relevant documentation and a copy of each related communication to Shareholders if the cancellation is to take place as a result of a takeover or other corporate action by the Issuer; and
4. Names and contact information of the Financial and Legal Advisors appointed according to the Rules on the Offer of Securities and Continuing Obligations.

b- The CMA may, at its discretion, approve or reject the cancellation request.

c- The Issuer must obtain the consent of the extraordinary general assembly on the cancellation of the listing after obtaining CMA approval.

d- Where cancellation is made at the Issuer's request, the Issuer must disclose such to the public as soon as possible. The disclosure must include the reason for the cancellation, the nature of the event resulting in the cancellation, and how it affects the Issuer's activities.

17.9 Temporary Trading Suspension

a- An Issuer may request from the Exchange a temporary trading suspension of its securities upon the occurrence of an event during trading hours which requires immediate disclosure under the Exchange rules or its Implementing Regulations, where the Issuer cannot maintain the confidentiality of this information until the end of the trading period. The Exchange suspends trading of the securities of that Issuer as soon as it receives the request.

b- When trading is temporarily suspended at the Issuer's request, the Issuer must disclose as soon as possible the reason for the suspension, its anticipated period and the nature of the event resulting in the suspension and how it affects the Issuer's activities.

c- The CMA may impose a temporary trading suspension without a request from the Issuer when the CMA has information or there are circumstances that affect the Issuer's activities which the CMA considers would be likely to interrupt the operation of the Exchange or the protection of investors. An Issuer whose securities are subject to a temporary trading suspension must continue to comply with the Capital Market Law, its Implementing Regulations and the Exchange rules.

d- The Exchange may propose that the CMA exercise its authority under Paragraph (c) above in case it finds that there is information or circumstances that may affect the Issuer's activities and that are likely to interrupt the operation of the Exchange or the protection of investors.

e- The temporary trading suspension will be lifted following the elapse of the period referred to in Paragraph (b) above, unless the CMA or the Exchange decide otherwise.

17.10 Miscellaneous

The Subscription Application Form and all related terms, conditions and covenants hereof shall be binding upon and inure to the benefit of the parties to the subscription and their respective successors, permitted assigns, executors, administrators and heirs; provided that, except as specifically contemplated herein, neither the Subscription Application Form nor any of the rights, interests or obligations arising pursuant thereto shall be assigned and delegated by any of the parties to the subscription without the prior written consent of the other party.

These instructions, conditions and receipt of any Subscription Application Forms or related contracts are governed, construed and enforced in accordance with the laws of the Kingdom of Saudi Arabia.

The Major Shareholders shall be subject to a Lock-up Period of six (6) months from the date on which trading of the Company's shares commences on the Exchange. During such period, the Major Shareholders may not dispose of any of their shares. Following the end of this Lock-up Period, the Major Shareholders may dispose of their shares.

Although the CMA has approved this Prospectus, it may suspend the Offering if the Company, at any time after the approval of this Offering by the CMA and before registration and admission to listing of the Shares on the Exchange, it becomes aware of: (1) a significant change in material matters contained in the Prospectus; and (2) any significant matters which should have been included in the Prospectus.

In these cases, it is incumbent on the Company to submit to the CMA a supplementary prospectus, according to the requirements of the Rules on the Offer of Securities and Continuing Obligations and the Listing Rules. The supplementary prospectus must be published and an announcement made about applicable subscription dates.

This Prospectus was issued in Arabic.

17.11 Declarations and Approvals on the Offering of the Offer Shares

Following are the decisions and approvals pursuant to which the Company's Offer Shares are being offered:

- The Company's Board of Directors Decision dated 11/04/1440H (corresponding to 18/12/2018G).
- The CMA approval of the public offering of the Offer Shares dated 28/04/1441H (corresponding to 25/12/2019G).
- The CMA approval, conditional upon the listing of Shares, dated 24/04/1440H (corresponding to 31/12/2018G).

The Major Shareholders shall be subject to the Lock-up Period defined in the Section "**Offering Summary**". During such period, the Major Shareholders may not dispose of any of their shares. Following the end of this Lock-up Period, the Major Shareholders may dispose of their shares.

The distribution of this Prospectus and the sale of Offer Shares in any country other than the Kingdom are expressly prohibited. The Company, the Current Shareholders, the Financial Advisor and the Lead Manager require recipients of this Prospectus to inform themselves of any regulatory restrictions on the Offer Shares and to observe all such restrictions.

17.12 Subscription Undertakings

17.12.1 Subscription Declarations and Undertakings

By completing and delivering the Subscription Application Form, each Subscriber:

- Agrees to subscribe for the Company's Shares in the number of such Shares as specified in the Subscription Application Form;
- Declares that they have read the Prospectus and understood all its contents;

- Accepts the Bylaws and all Offering instructions and terms mentioned in the Prospectus;
- Declares that neither themselves nor any of their family members included in the Subscription Application Form have previously subscribed for shares and the Company has the right to reject all duplicate applications;
- Accepts the number of Shares allocated thereto (to the maximum of the amount subscribed for) as per the Subscription Application Form and all other subscription instructions and terms mentioned in the Prospectus and the Subscription Application Form;
- Undertakes not to cancel or amend the Subscription Application Form after submitting it to the Lead Manager or the Receiving Entity; and
- Retains their right to sue the Company for damages caused by incorrect or incomplete information contained in the Prospectus, or by omitting material information that should have been part of the Prospectus and could affect their decision to purchase the Shares.

17.13 Saudi Stock Exchange (Tadawul)

Tadawul was founded in 2001G as the successor to the Electronic Securities Information System. In 1990G, full electronic trading in the Kingdom was introduced. 200 companies and Real Estate traded Funds have been listed and traded on Tadawul as of that date.

Trading in shares occurs on the "Tadawul" system through a fully integrated trading system covering the entire trading process, from execution of the trade transaction through settlement thereof. Trading occurs each business day between 10:00 am and 3:00 pm, during which orders are executed. However, orders can be entered, amended or cancelled from 9:30 am to 10:00 am. New entries and inquiries can be made from 10:00 am of the opening phase. These times may be changed by the Saudi Stock Exchange.

Transactions take place through the automatic matching of orders. Each valid order is accepted and generated according to the price level. In general, market orders (orders placed at best price) are executed first, followed by limit orders (orders place at a price limit), provided that if several orders are generated at the same price, they are executed according to the time of entry. Tadawul distributes a comprehensive range of information through various channels, including in particular the Tadawul website on the Internet and Tadawul Information Link, which supplies trading data in real time to information providers such as Reuters and Bloomberg.

Exchange transactions are electronically settled on the same day, i.e., a transfer of shares takes place once the transaction is executed. Issuers are required to disclose all material information that is important for investors via Tadawul. Surveillance and monitoring are the responsibility of Tadawul as the operator of the market to ensure fair trading and an orderly market.

17.14 Securities Depository Center Company (Edaa)

Securities Depository Center Company ("Edaa") was established in 2016G as a closed joint stock company in accordance with the Saudi Companies Law issued by Royal Decree No. M/3 dated 28/01/1437H, with a capital of SAR 400,000,000 divided into 40,000,000 shares, with a nominal value of ten (10) Saudi riyals per share, and is fully owned by Saudi Stock Exchange (Tadawul).

The establishment was upon the CMA's approval of Tadawul's Board of Directors' request in relation to converting the Securities Depository Center into a joint stock company in accordance with the Capital Market Law.

Edaa's principal activities are to conduct businesses related to depositing, registering, transferring, settling and clearing securities, and recording any ownership restrictions on deposited securities. Further, it deposits and manages the records of the issuers of securities and organizes issuers' general assemblies, including remote voting services (e-Voting), reporting, notifications, and information, as well as providing other related services that Edaa may provide in accordance with the Capital Market Law and its Implementing Regulations.

17.15 Trading on Tadawul

It is expected that trading will commence on Tadawul after final allocation of the Shares and the announcement of the start date of trading by Tadawul. Dates and times included in this Prospectus are only indicative and may be changed or extended subject to the approval of the CMA.

Furthermore, the Offer Shares can only be traded after allocated Offer Shares have been credited to Subscribers' accounts at Tadawul, the Company has been registered and its shares listed on the Exchange. Pre-trading in shares is strictly prohibited and Subscribers entering into any pre-trading activities will be acting at their own risk. The Company shall have no legal responsibility in connection with pre-trading activities.

18. Documents Available for Inspection

The following documents will be available for inspection at the Company's head office located in is 3485 ath thumamah road, Al Rabie District Riyadh 13316 - 8450 P.O. Box 28088, Riyadh, 11437, Kingdom of Saudi Arabia, between 9:00 am and 5:00 pm from 18/10/1441H (corresponding to 10/06/2020G) until 14/11/1441H (corresponding to 05/07/2020G):

- CMA approval of the Offering;
- The Company's Bylaws, together with any amendments thereto and other founding documents;
- The Issuer's commercial registration;
- The Issuer's Financial Valuation Report prepared by the Financial Advisor;
- The Company's audited financial statements for the financial years ended 31 December 2016G, 2017G, 2018G, 2019G, the six-month period ended 30 June 2019G and financial statements (unaudited) for three-month period ended 31 March 2020G;
- Agreements with Related Parties disclosed in Section (12.5.10);
- The Lead Management Agreement;
- The Underwriting Agreement;
- Other reports, letters, documents, value and data assessments prepared by any expert, including any portion thereof mentioned in this Prospectus;
- Letters of consent from each of:
  - NCB Capital Company (NCB Capital) for inclusion of its name in this Prospectus as the Financial Advisor, Bookrunner, Underwriter and Lead Manager;
  - The Law Office of Looaye M. Al-Akkas for inclusion of its name in this Prospectus as the Legal Advisor in respect of the Offering;
  - 4SIGHT - Arabian Market Vision Co. Ltd. for inclusion of its name in this Prospectus as the Market Consultant;
  - PricewaterhouseCoopers for inclusion of its name in this Prospectus as the Financial Due Diligence Advisor; and
  - The Auditors, KPMG Al Fozan & Partners and Ernst & Young & Co (Public Accountants), for the inclusion of the Audit Reports prepared thereby in this Prospectus; and.
- The Market report prepared by the Market Consultant.

19. Financial Statements and Auditor's Report

This section contains the Company's audited financial statements for the financial years ended 31 December 2016G and the accompanying notes thereto prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), as stipulated in Article 71 of the Implementing Regulations of the Law on Supervision of Finance Companies. They were audited by the Company's Auditor Ernst & Young & Co (Public Accountants). Further, it contains the Company's audited financial statements for the financial years ended 31 December 2017G, 2018G, 2019G, the six-month period ended 30 June 2019G and financial statements (unaudited) for three-month period ended 31 March 2020G, and the accompanying notes thereto, prepared in accordance with the IFRS as amended by SAMA. They were audited by the Company's Auditor KPMG Al Fozan & Partners (Public Accountants).

AMLAK INTERNATIONAL FOR REAL ESTATE FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
For the three-month period ended 31 March 2020
together with the
Independent Auditor's Review Report

KPMG Al Fozan & Partners
Certified Public Accountants
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Licence No. 46/11/323 issued 11/3/1992

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

To the shareholders of Amlak International for Real Estate Finance Company

Introduction

We have reviewed the accompanying 31 March 2020 condensed interim financial statements of Amlak International for Real Estate Finance Company ("the Company"), which comprises:

- the condensed interim statement of financial position as at 31 March 2020;
- the condensed interim statement of profit or loss for the three-month period ended 31 March 2020;
- the condensed interim statement of comprehensive income for the three-month period ended 31 March 2020;
- the condensed interim statement of changes in equity for the three-month period ended 31 March 2020;
- the condensed interim statement of cash flows for the three-month period ended 31 March 2020; and
- the notes to the condensed interim financial statements.

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 31 March 2020 condensed interim financial statements of Amlak International for Real Estate Finance Company are not prepared, in all material respects, in accordance with IAS 34 as endorsed in the Kingdom of Saudi Arabia.

For KPMG Al Fozan & Partners
Certified Public Accountants

Fahad Mubark Al Dossari
License No: 469

Al Riyadh, 19 Ramadan 1441H
Corresponding to: 12 May 2020

AMLAK INTERNATIONAL FOR REAL ESTATE FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION
As at 31 March 2020
(SR '000)

	Notes	**31 March 2020 (Unaudited)**	31 December 2019 (Audited)
ASSETS			
Cash and cash equivalents		**18,382**	7,876
Investments		**11,622**	11,922
Murabaha receivables, net	*4*	**172,033**	123,450
Ijara receivables, net	*5*	**3,041,763**	3,016,729
Ijara mawsofa fi athemmah receivables, net	*6*	**66,075**	57,449
Prepayments and other assets		**132,298**	127,647
Property and equipment, net		**61,227**	60,061
Positive fair value of derivatives		**--**	71
TOTAL ASSETS		**3,503,400**	3,405,205
LIABILITIES AND EQUITY			
Account payables and other accruals	*7*	**139,028**	147,829
Negative fair value of derivatives		**10,792**	3,621
Zakat and income tax payable	*8*	**38,160**	34,380
Borrowings	*9*	**2,153,551**	2,080,432
Employees' end of service benefits		**14,344**	13,666
TOTAL LIABILITIES		**2,355,875**	2,279,928
Share capital	*10*	**906,000**	906,000
Statutory reserve		**68,416**	68,416
Cash flow hedge reserve		**(10,792)**	(3,550)
Retained earnings		**183,901**	154,411
TOTAL EQUITY		**1,147,525**	1,125,277
TOTAL LIABILITIES AND EQUITY		**3,503,400**	3,405,205

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

AMLAK INTERNATIONAL FOR REAL ESTATE FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
CONDENSED INTERIM STATEMENT OF PROFIT OR LOSS (UNAUDITED)
For the three-month period ended 31 March 2020
(SR '000)

	Notes	For the three-month period ended 31 March 2020	2019 (Restated)
INCOME			
Income from Murabaha contracts		**4,064**	2,117
Income from Ijara contracts		**66,866**	62,545
Income from Ijara mawsofa fi athemmah contracts		**1,925**	1,292
(Loss) / gain on sale of portfolio		**(504)**	419
Fees and commission income		**2,910**	2,297
Total income from Murabaha, Ijara and Ijara Mawsofa Fi Athemmah		**75,261**	68,670
EXPENSES			
Finance cost	12	**(13,427)**	(24,140)
Fee expense		**(632)**	(572)
Net income from Murabaha, Ijara and Ijara Mawsofa Fi Athemmah		**61,202**	43,958
Other operating (loss) / income			
Other (loss) / income		**(316)**	343
		60,886	44,301
OPERATING EXPENSES			
Depreciation		**(1,415)**	(631)
General and administrative expenses	14	**(18,311)**	(16,840)
Selling and marketing expenses	15	**(3,148)**	(2,637)
Impairment charge for expected credit losses, net		**(4,736)**	(121)
Profit before zakat and income tax		**33,276**	24,072
Zakat and income tax expense:			
- Current period		**(3,786)**	(3,869)
- Prior period		**--**	(16,608)
NET PROFIT FOR THE PERIOD AFTER ZAKAT AND INCOME TAX		**29,490**	3,595
Basic and diluted earnings per share (SR)	13	**0.33**	0.04

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

AMLAK INTERNATIONAL FOR REAL ESTATE FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
For the three-month period ended 31 March 2020
(SR '000)

	For the three-month period ended 31 March	
	2020	2019
NET PROFIT FOR THE PERIOD	**29,490**	**3,595**
OTHER COMPREHENSIVE LOSS		
Items that may be reclassified to profit or loss in subsequent periods:		
Net movement in cash flow hedges	**(7,242)**	(168)
TOTAL COMPREHENSIVE INCOME	**22,248**	3,427

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

AMLAK INTERNATIONAL FOR REAL ESTATE FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
For the three-month period ended 31 March 2020
(SR '000)

For the period ended 31 March 2020	**Share Capital**	**Statutory reserve**	**Fair value reserve investment at FVOCI**	**Cash flow hedge reserve**	**Retained earnings**	**Total**
Balance at 1 January 2020	**906,000**	**68,416**	--	**(3,550)**	**154,411**	**1,125,277**
Net profit for the period	--	--	--	--	**29,490**	**29,490**
Other comprehensive loss	--	--	--	**(7,242)**	--	**(7,242)**
Balance at 31 March 2020	**906,000**	**68,416**	--	**(10,792)**	**183,901**	**1,147,525**

For the period ended 31 March 2019	Share Capital	Statutory reserve	Fair value reserve investment at FVOCI	Cash flow hedge reserve	Retained earnings	Total
Balance at 31 December 2018 – as previously reported (audited)	906,000	61,415	(409)	1,087	158,301	1,126,394
Impact of change in accounting of zakat and income tax (note 2)	--	--	--	--	516	516
Balance at 31 December 2018 – as restated	906,000	61,415	(409)	1,087	158,817	1,126,910
Impact of adoption of new standard and other adjustments at 1 January 2019	--	--	409	--	(409)	--
Net profit for the period	--	--	--	--	3,595	3,595
Other comprehensive loss	--	--	--	(168)	--	(168)
Balance at 31 March 2019	906,000	61,415	--	919	162,003	1,130,337

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

AMLAK INTERNATIONAL FOR REAL ESTATE FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
CONDENSED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)
For the three-month period ended 31 March 2020
(SR '000)

	For the three-month period ended 31 March	
	2020	2019
Cash flows from operating activities:		
Net profit for the period before zakat and income tax	**33,276**	24,072
Non-cash adjustment to reconcile net profit before zakat and income tax for the period to net cash from operating activities		
Depreciation	**1,415**	631
Borrowing facility cost and charges	**21,209**	24,140
Employees' end of service benefits	**728**	728
Impairment allowance for expected credit losses	**4,736**	121
Modification loss on murabaha receivables and ijara receivables	**2,023**	--
Modification gain on borrowings	**(8,716)**	--
Loss / (gain) on sale of portfolio	**504**	(419)
Other (loss) / income	**316**	(343)
	55,491	48,930
Decrease / (increase) in operating assets		
Murabaha receivables	**(50,831)**	16,891
Ijara receivables	**(29,491)**	32,744
Ijara mawsofa fi athemmah receivables	**(8,680)**	19,109
Prepayments and other assets	**(4,651)**	1,742
Increase / (decrease) in operating liabilities		
Account payables and other accruals	**(8,395)**	1,852
	(46,557)	121,268
Finance cost paid	**(21,773)**	(23,653)
Employees' end of service benefits paid	**(50)**	(277)
Zakat and income tax paid	**(234)**	(6,736)
Net cash (used in) / generated from operating activities	**(68,614)**	90,602
Cash flows from investing activities		
Purchase of property and equipment	**(2,581)**	(4,095)
Proceeds from investments in joint ventures	**--**	1,600
Net cash used in investing activities	**(2,581)**	(2,495)
Cash flows from financing activities		
Repayment against borrowings	**(303,068)**	(273,503)
Proceeds from borrowings	**385,000**	185,000
Payment of lease liabilities	**(231)**	--
Net cash generated from / (used in) financing activities	**81,701**	(88,503)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	**10,506**	(396)
Cash and cash equivalents at beginning of the period	**7,876**	15,965
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	**18,382**	15,569
Non-cash supplemental information:		
Net changes in fair value of cash flow hedge	**(7,242)**	(168)
Right of use asset	**--**	40,031
Lease liability	**--**	37,010

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

1. THE COMPANY AND THE NATURE OF OPERATIONS

Amlak International for Real Estate Finance Company ("Amlak" or the "Company") is a Saudi Closed Joint Stock Company established and registered in the Kingdom of Saudi Arabia under commercial registration number 1010234356 in Riyadh dated 25 Jumada Awal 1428H (corresponding to 11 June 2007). As part of the mortgage regulations, the Company is in the process of exiting from the investment related business.

As per the revised commercial registration certificate of the Company dated 11 Ramadan 1435H (corresponding to 8 July 2014), the objectives of the Company is to provide real estate finance as per Saudi Arabian Monetary Authority ("SAMA") license dated 21 Safar 1435H (corresponding to 24 December 2013).

The registered office of the Company is located King Saud Road Riyadh, Kingdom of Saudi Arabia. A Corporate Office has been established in Jeddah by the Company in 2019. The Company has following branches:

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

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

The Company is in the process of listing its equity shares on Tadawul (Kingdom of Saudi Arabia Stock Exchange). In this respect, the Company has obtained Capital Market Authority ('CMA') approval for Initial Public Offering and the Company has six-month period ending in June 2020 for listing its shares.

2. BASIS OF PREPARATION

2.1 Statement of compliance

The condensed interim financial statements of the Company as at and for the period ended 31 March 2020 has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organisation for Certified Public Accountants ("SOCPA").

The condensed interim financial statements of the Company as at and for the three-month period ended 31 March 2019, were prepared in compliance with the International Accounting Standard 34 "Interim Financial Reporting", as modified by SAMA for the accounting of zakat and income tax (relating to the application of IAS 12 – "Income Taxes" and IFRIC 21 – "Levies" so far as these relate to zakat and income tax) and the Regulations for companies in the Kingdom of Saudi Arabia.

On 18 July 2019, SAMA instructed the financing companies in the Kingdom of Saudi Arabia to account for the zakat and income taxes in the statement of income. This aligns with the IFRS and its interpretations as issued by the International Accounting Standards Board ("IASB") and as endorsed in the Kingdom of Saudi Arabia and with the other standards and pronouncements that are issued by the Saudi Organisation for Certified Public Accountants ("SOCPA") (collectively referred to as "IFRS as endorsed in KSA").

2. BASIS OF PREPARATION (CONTINUED)

2.1 Statement of compliance (continued)

Accordingly, the Company changed its accounting treatment for zakat and income tax by retrospectively adjusting the impact in line with International Accounting Standard 8 Accounting Policies, Changes in Accounting Estimates and Errors and the effects of this change are disclosed in note 2.4.

2.2 Basis of measurement

These condensed interim financial statements have been prepared under the historical cost convention except for the measurement of investments and derivatives, which are carried at fair value. Further, employees' end of service benefits are measured at present value of future obligations using the Projected Unit Credit Method.

2.3 Functional and presentation currency

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

2.4 Change in the accounting for zakat and income tax:

As mentioned in note 2.1, the basis of preparation has been changed for the three-month period ended 31 March 2020 as a result of the issuance of latest instructions from SAMA dated 18 July 2019. Previously, zakat and income tax were recognized in the statement of changes in equity as per the SAMA circular no 381000074519 dated 11 April 2017. With the latest instructions issued by SAMA dated 18 July 2019, the zakat and income tax shall be recognized in the statement of profit or loss. The Company has accounted for this change in the accounting for zakat and income tax retrospectively and the effects of the above change are disclosed in this note. The change has resulted in reduction of reported income of the Company for the period ended 31 March 2019 by SR 20.48 million. The change has had no impact on the statement of cash flows for the three-month period ended 31 March 2019. Below are the accounting policies on zakat and income tax:

Income tax:

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

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

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

IFRIC 23 "Uncertainty over Income Tax Treatment"

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

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

(SR'000)

2. BASIS OF PREPARATION (CONTINUED)

2.4 Change in the accounting for zakat and income tax (continued):

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

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

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

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

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

Effect of change in accounting of zakat and income tax:
The change in the accounting treatment for zakat and income tax has the following impact on the line items of the statement of financial position, statements of income and statement of changes in equity:

For the three-month period ended 31 March 2019 (Unaudited):

Financial statement impacted	Account	Before restatement	Effect of restatement	As restated
Statement of changes in equity	Provision for zakat and income tax (retained earnings)	(20,477)	20,477	--
Statement of profit or loss	Zakat and income tax expense	--	(20,477)	20,477

As at 31 December 2018 (Audited):

Financial statement impacted	Account	Before restatement	Effect of restatement	As restated
Statement of financial position	Deferred tax asset	--	516	516
Statement of financial position	Retained earnings	158,301	516	158,817

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these condensed interim financial statements are consistent with those followed in the preparation of the financial statements for the year ended 31 December 2019, except for the accounting policies in note 2.4.

4. MURABAHA RECEIVABLES, NET

	31 March 2020 (Unaudited)	31 December 2019 (Audited)
Gross Murabaha receivables	**174,372**	125,419
Less: Impairment allowance for expected credit losses	**(2,339)**	(1,969)
Murabaha receivables, net	**172,033**	123,450

5. IJARA RECEIVABLES, NET

	31 March 2020 (Unaudited)	31 December 2019 (Audited)
Gross Ijara receivables	**4,239,435**	4,204,624
Less: Unearned income	**(1,107,960)**	(1,102,495)
	3,131,475	3,102,129
Less: Impairment allowance for expected credit losses	**(89,712)**	(85,400)
Ijara receivables, net	**3,041,763**	3,016,729

5.1 The maturity profile of Ijara receivables as at 31 March 2020 and 31 December 2019 are as follows:

	31 March 2020 (Unaudited)			
	Not later than one year	**Later than one year but not later than five years**	**Later than five years**	**Total**
Ijara receivables	**956,537**	**2,045,371**	**1,237,527**	**4,239,435**
Less: Unearned income	**(241,371)**	**(567,609)**	**(298,980)**	**(1,107,960)**
	717,043	**1,477,762**	**938,547**	**3,131,475**
Less: Impairment allowance for expected credit losses				**(89,712)**
Ijara receivables, net				**3,041,763**

	31 December 2019 (Audited)			
	Not later than one year	Later than one year but not later than five years	Later than five years	Total
Ijara receivables	901,098	2,140,538	1,162,988	4,204,624
Less: Unearned income	(245,512)	(568,681)	(288,302)	(1,102,495)
	655,586	1,571,857	874,686	3,102,129
Less: Impairment allowance for expected credit losses				(85,400)
Ijara receivables, net				3,016,729

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6. IJARA MAWSOFA FI ATHEMMAH RECEIVABLES, NET

	31 March 2020 (Unaudited)	31 December 2019 (Audited)
Gross Ijara mawsofa fi athemmah receivables	**112,514**	128,100
Less: Unearned income	**(44,097)**	(68,363)
	68,417	59,737
Less: Impairment allowance for expected credit losses	**(2,342)**	(2,288)
Ijara mawsofa fi athemmah receivables, net	**66,075**	57,449

6.1 The maturity profile of Ijara mawsofa fi athemmah receivables as at 31 March 2020 and 31 December 2019 are as follows:

	31 March 2020 (Unaudited)			
	Not later than one year	**Later than one year but not later than five years**	**Later than five years**	**Total**
Ijara mawsofa fi athemmah receivables	**7,281**	**25,625**	**79,608**	**112,514**
Less: Unearned income	**(2,723)**	**(10,177)**	**(31,197)**	**(44,097)**
	4,558	**15,448**	**48,411**	**68,417**
Less: Impairment allowance for expected credit losses				**(2,342)**
Ijara mawsofa fi athemmah receivables, net				**66,075**

	31 December 2019 (Audited)			
	Not later than one year	Later than one year but not later than five years	Later than five years	Total
Ijara mawsofa fi athemmah receivables	10,387	35,902	81,811	128,100
Less: Unearned income	(6,763)	(23,310)	(38,290)	(68,363)
	3,624	12,592	43,521	59,737
Less: Impairment allowance for expected credit losses				(2,288)
Ijara mawsofa fi athemmah receivables, net				57,449

7. ACCOUNT PAYABLES AND OTHER ACCRUALS

	31 March 2020 (Unaudited)	31 December 2019 (Audited)
Financing to customers (note 7.1)	**44,851**	37,697
Payable to the Ministry of Housing (note 7.2)	**33,605**	33,357
Lease liabilities	**22,222**	21,984
Salaries and employee related expenses	**8,808**	15,823
Amount received from Murabaha and Ijara customers (note 7.3)	**7,659**	7,351
Accrued expenses	**5,007**	9,701
Others	**16,876**	21,916
	139,028	147,829

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7. ACCOUNT PAYABLES AND OTHER ACCRUALS (CONTINUED)

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

7.2 This pertains to property purchase for customers in a scheme introduced by the Ministry of Housing.

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

8. ZAKAT AND INCOME TAX

a) The movement in zakat and income tax is as follow:

	31 March 2020 (Unaudited)		
	Zakat	**Income tax**	**Total**
Balance at the beginning of the period	**34,180**	**200**	**34,380**
Charge for current period	**3,786**	**--**	**3,786**
Unwinding of discount	**228**	**--**	**228**
Payments made during the period	**(234)**	**--**	**(234)**
Balance as at end of the period	**37,960**	**200**	**38,160**

	31 December 2019 (Audited)		
	Zakat	Income tax	Total
Balance at the beginning of the year	36,147	643	36,790
Charge for the year:			
- current year	14,857	68	14,925
- prior years	16,367	241	16,608
	31,224	309	31,533
Unwinding of discount	839	--	839
Payments made during the year	(34,030)	(752)	(34,782)
Balance as at end of the year	34,180	200	34,380

b) Zakat and income tax assessment status

Zakat and income tax declaration for all the years up to 2018 have been filed with the GAZT and acknowledgement certificates have been obtained.

During the period ended 31 March 2020, there has been no change in the status of the Company's zakat and income tax assessments from the status disclosed in the annual financial statements of the Company for the year ended 31 December 2019.

9. BORROWINGS

These represent amounts borrowed from local commercial banks and Saudi Real Estate Re-finance Company ("SRC") under Islamic borrowings approved by the Sharia Committee. These facilities carry borrowing costs at profit rates ranging from 3 months to 3 years Saudi Inter Bank Offer rates ("SIBOR") plus spread, have maturity periods ranging from 1 month to 5 years and are secured by the assignment of proceeds from instalment receivables. Under the terms of the financing arrangements, the Company adhered to certain covenants during the three-month period ended 31 March 2020.

10. SHARE CAPITAL

As at 31 March 2020, the Company's authorised, issued and paid-up share capital was SR 906 million (31 December 2019: SR 906 million) divided into 90.6 million shares (31 December 2019: 90.6 million shares) with a nominal value of SR 10 each.

11. INCOME FROM IJARA CONTRACTS and MURABAHA CONTRACTS

Income from Ijara contracts and murabaha contracts includes modification loss amounting to SR 1.88 million (31 March 2019: nil) and SR 0.15 million respectively, due to the deferment of instalments related to receivables from Micro Small and Medium Enterprises ("MSME") as per SAMA's Private Sector Financing Support Program ('PSFSP').

12. FINANCE COST

This includes a modification gain amounting to SR 8.72 million (31 March 2019: nil) due to the deferment of instalments related to borrowings as per SAMA's PSFSP.

13. EARNINGS PER SHARE

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

	For the three-month period ended 31 March	
	2020 (Unaudited)	2019
Profit for the period	**29,490**	3,595
Weighted average number of ordinary shares (in thousands)	**90,600**	90,600
Basic and diluted earnings per share (SR)	**0.33**	0.04

14. GENERAL AND ADMINISTRATIVE EXPENSES

	For the three-month period ended 31 March	
	2020 (Unaudited)	2019
Salaries and employees related cost	**13,713**	12,734
Information technology expenses	**638**	616
Board fee and expenses	**1,250**	1,179
Professional fee	**741**	682
Travelling expenses	**211**	251
Communication	**194**	139
Maintenance expenses	**126**	112
Rent	**76**	69
Others	**1,362**	1,058
	18,311	16,840

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15. SELLING AND MARKETING EXPENSES

	For the three-month period ended 31 March	
	2020 (Unaudited)	2019
Salaries and outsourcing costs	**1,862**	1,354
Marketing expenses	**850**	834
Insurance	**436**	449
	3,148	2,637

16. RELATED PARTY TRANSACTIONS AND BALANCES

The related parties of the Company include the shareholders and their affiliated entities, Subsidiary and key management personnel. In the ordinary course of its activities, the Company transacts business with its related parties on mutually agreed terms. Key management personnel represent the members of the Board and its committees, Chief Executive Officer and his direct reports.

Significant transactions and balances arising from transactions with related parties are as follows:

Nature of transaction	**Name of related party and relationship**	**For the three-month period ended 31 March (Unaudited)**	
		2020	2019
Borrowing cost	The Saudi Investment Bank (shareholder)	**5,920**	6,087
Rent expense	Saudi Orix Leasing (affiliate)	**132**	398
Security and other expenses	Saudi Orix Leasing (affiliate)	**10**	22
Salaries and benefits	Key management personnel	**5,315**	4,740
Board meeting fees and other expenses	Board members	**1,250**	1,179
Payment on behalf of shareholders	Shareholders	**1,754**	372

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16. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

Nature of balances and names of related parties	Relationship	Balances	
		31 March 2020 (Unaudited)	31 December 2019 (Audited)
Bank balances:			
The Saudi Investment Bank	Shareholder	**16,328**	7,340
Due from related parties:			
Alistithmar Capital	Joint venture	**1,775**	1,775
Dar Wa Emar – Rahba	Joint venture	**1,776**	2,923
Tharaa Real Estate Investment	Affiliate	**--**	878
Bank borrowings:			
The Saudi Investment Bank	Shareholder	**485,237**	615,821
Notional amount of Profit Rate Swaps:			
The Saudi Investment Bank	Shareholder	**--**	50,000
Financing and advances:			
Key management personnel	Key management	**3,607**	3,731
Investment at FVOCI:			
SAIB Saraya Tower Real Estate Development Fund	Affiliate	**10,729**	11,029
Other receivables:			
Amlak International For Real Estate Development	Subsidiary	**305**	305
Receivable against initial public offering	Shareholders	**6,403**	4,649
Board meeting and other expenses payable			
Board members	Board members	**1,506**	3,739
Other Payable:			
Amlak International For Real Estate Development	Subsidiary	**305**	305

17. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

Financial instruments comprise financial assets, financial liabilities and derivatives.

Financial assets consist of cash and cash equivalents, investments, derivatives, Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivable and other receivables. Financial liabilities consist of borrowings, payables and derivatives.

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17. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy

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

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

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

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

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

		Fair Value			
31 March 2020 (Unaudited)	***Carrying Value***	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets:					
Murabaha receivables, net	172,033	--	--	173,754	173,754
Ijara receivables, net	3,041,763	--	--	3,184,801	3,184,801
Ijara mawsofa fi athemmah receivables, net	66,086	--	--	67,884	67,884
Investments	11,622	--	--	11,622	11,622
Financial laibilities:					
Negative fair value of derivatives	10,792	--	--	10,792	10,792

		Fair Value			
31 December 2019 (Audited)	*Carrying Value*	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets:					
Murabaha receivables, net	123,450	--	--	123,748	123,748
Ijara receivables, net	3,016,729	--	--	3,045,905	3,045,905
Ijara mawsofa fi athemmah receivables, net	57,449	--	--	63,692	63,692
Investments	11,922	--	--	11,922	11,922
Positive fair value of derivatives	71	--	--	71	71
Financial laibilities:					
Negative fair value of derivatives	3,621	--	--	3,621	3,621

The valuation of fixed rate Murabaha receivables, Ijara receivables and Ijara Mowsofa Fi Athemmah receivables are estimated using contractual cash flows discounted at latest yield, which is the contracted profit rate for recent transactions. Input into the discounted cash flow techniques includes recent yields and contractual cash flows.

Management assessed that the carrying amount of other financial instruments largely approximate fair value due to either short-term maturities or re-pricing of the special commission on those instruments and these financial instruments are classified as level 3.

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

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18. CAPITAL ADEQUACY

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

	31 March 2020 (Unaudited)		31 December 2019 (Audited)	
	Total capital ratio %	***Tier I capital ratio %***	*Total capital ratio %*	*Tier I capital ratio %*
Capital adequacy ratio	**44.13**	**44.27**	43.16	43.30

19. COMMITMENTS AND CONTINGENCIES

Financing facilities approved but not utilised:
The Company has facilities approved but not utilised, indicative offers issued which are under consideration of the customers as of the reporting date which have the potential to convert into financing amounting to SR 280 million (31 December 2019: SR 218 million).

VAT assessments:
In 2019, the GAZT issued an assessment on VAT returns for the period from January 2018 to January 2019 and claimed an amount of SR 19.9 million. The Company paid SR 9.2 million in respect of VAT variances and issued a bank guarantee in respect of the remaining amount. The Company has filed an appeal clarifying its position on the assessment received from GAZT.

During the period, GAZT partially accepted the Company's appeal and revised its assessment by reducing their claim to SR 14.69 million including penalties. The Company has filed appeal in General Secretary of Tax Committee (GSTC) against the revised claim and the Company believes it is unlikely that the above position of GAZT will be upheld; however, the Company recorded SR 6.07 million to cover the expected and potential claims as its best estimate of additional VAT liability.

20. SEGMENT INFORMATION

The Company's objective is to provide financing for real estate leases in the Kingdom of Saudi Arabia. All assets, liabilities and operations as reflected in the statement of financial position and statement of comprehensive income belongs to the real estate financing segment.

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

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

Corporate
These represents financing products granted to corporate, high net worth individuals and institutional customers.

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

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20 SEGMENT INFORMATION (CONTINUED)

The Company's total assets and liabilities at 31 March 2020 and 31 December 2019 and its total operating income, expenses and net profit for the three-month period ended 31 March 2020 and 2019 are as follows:

	Retail	Corporate	Head office	Total
For the period ended 31 March 2020 (Unaudited)				
Income	**21,046**	**53,267**	**--**	**74,313**
Expenses	**15,339**	**25,698**	**--**	**41,037**
Segment profit	**5,707**	**27,569**	**--**	**33,276**
For the period ended 31 March 2019 (Unaudited)				
Income	22,111	46,330	--	68,441
Expenses	14,331	30,038	--	44,369
Segment profit	7,780	16,292	--	24,072
As at 31 March 2020 (Unaudited)				
Total assets	**1,032,414**	**2,391,377**	**79,609**	**3,503,400**
Total liabilities	**634,635**	**1,571,426**	**149,814**	**2,355,875**
As at 31 December 2019 (Audited)				
Total assets	1,014,165	2,323,031	68,009	3,405,205
Total liabilities	652,968	1,505,869	121,091	2,279,928

Below is the reconciliation of revenue and expenses from condensed interim financial statements to operating segment note:

	For the three-month period ended 31 March	
	2020 (Unaudited)	2019 (Unaudited)
Income		
Total income from Murabaha, Ijara and Ijara Mawsofa Fi Athemmah receivables	**75,261**	68,670
Fee expenses	**(632)**	(572)
Other (loss) / income	**(316)**	343
Total income – as per operating segment note.	**74,313**	68,441
Expenses		
Borrowing costs	**(13,427)**	(24,140)
Depreciation	**(1,415)**	(631)
General and administrative expenses	**(18,311)**	(16,840)
Selling and marketing expenses	**(3,148)**	(2,637)
Impairment charge for expected credit losses, net	**(4,736)**	(121)
Total expense – as per operating segment note.	**(41,037)**	(44,369)

21. IMPACT OF COVID-19 ON THE COMPANY'S OPERATIONS AND THE CONDENSED INTERIM FINANCIAL STATEMENTS

During March 2020, the World Health Organisation ("WHO") declared the Coronavirus ("COVID-19") outbreak as a pandemic in recognition of its rapid spread across the globe. This outbreak has also affected the GCC region including the Kingdom of Saudi Arabia. Governments all over the world took steps to contain the spread of the virus. Saudi Arabia in particular has implemented closure of borders, released social distancing guidelines and enforced country wide lockdowns and curfews.

Oil prices have also witnessed significant volatility during the current period, owing not just to demand issues arising from COVID-19 as the world economies go into lockdown, but also supply issues driven by volume which had predated the pandemic. The Company has evaluated the current situation through conducting stress testing scenarios on expected movements of oil prices and its impact on key credit, liquidity, operational, solvency and performance indicators in addition to other risk management practices to manage the potential business disruption due to COVID-19 outbreak that may have on its operations and financial performance. These also take into consideration the impacts of government and SAMA support relief programmes.

These current events and the prevailing economic condition require the Company to revise certain inputs and assumptions used for the determination of expected credit losses ("ECL"). These would primarily revolve around revisions to the scenario probabilities currently being used by the Company in ECL estimation. The adjustments to scenario weightings resulted in an additional ECL of SR 0.6 million for the Company. As with any forecasts, the projections and likelihoods of occurrence are underpinned by significant judgement and uncertainty and therefore, the actual outcomes may be different to those projected. The impact of such uncertain economic environment is judgemental and the Company will continue to reassess its position and the related impact on a regular basis.

The Company has also recognised overlays of SR 1.2 million for its corporate and retail financing. These have been based on a sector-based analysis performed by the Company in cognisance of the impacted portfolios. The Company will continue to individually assess significant exposures as more reliable data becomes available and accordingly determine if any adjustment in the ECL is required in subsequent reporting periods.

SAMA support programs and initiatives

In response to COVID-19, SAMA launched the PSFSP in March 2020 to provide the necessary support to the MSME as per the definition issued by SAMA via Circular No. 381000064902 dated 16 Jumada II 1438H. The PSFSP mainly encompasses the following programs:

- Deferred payments program; and
- Funding for lending program.

As part of the deferred payments program, the Company is required to defer payments for six months on lending facilities to those companies that qualify as MSMEs. The payment reliefs are considered as short-term liquidity support to address the borrower's potential cash flow issues. The Company has effected the payment reliefs by deferring the instalments falling due within the period from 14 March 2020 to 14 September 2020 for a period of six months without increasing the facility tenure of the applicable financing facilities granted with no additional costs to be borne by the customer. The accounting impact of these changes in terms of the credit facilities has been assessed and are treated as per the requirements of IFRS 9 as modification in terms of arrangement. This has resulted in the Company recognising a modification loss on Ijara receivables and murabaha receivables amounting to SR 1.88 million and SR 0.15 million respectively, as at 31 March 2020 and this has been presented as part of income, refer to note 11 for further details. In the absence of other factors, participation in the PSFSP is not considered a significant increase in credit risk.

21. IMPACT OF COVID-19 ON THE COMPANY'S OPERATIONS AND THE CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)

Furthermore, in accordance with the PSFSP, the Company is also eligible for the deferral of its loan instalment payment to the banks and Saudi Real Estate Re-financing Company. Similarly, the Company recognised a modification gain of SR 8.72 million as at 31 March 2020 and this has been presented as part of financial cost, refer to note 12 for further details.

As at 31 March 2020, the Company is yet to participate in SAMA's funding for lending program.

22. APPROVAL OF THE CONDENSED INTERIM FINANCIAL STATEMENTS

The condensed interim financial statements have been approved by the Board of Directors on 18 Ramadan 1441H (corresponding to 11 May 2020).

AMLAK INTERNATIONAL FOR
REAL ESTATE FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
FINANCIAL STATEMENTS
For the year ended 31 December 2019
together with the
INDEPENDENT AUDITOR'S REPORT

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

Independent Auditor's Report

To the Shareholders of Amlak International for Real Estate Finance Company

Opinion

We have audited the financial statements of Amlak International for Real Estate Finance Company ("the Company"), which comprise the statement of financial position as at 31 December 2019, the statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

Basis for Opinion

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, the Regulations for Companies, and the Company's By-laws and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, the Board of Directors, are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Independent Auditor's Report

To the Shareholders of Amlak International for Real Estate Finance Company (continued)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

As part of an audit in accordance with ISA that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit of Amlak International for Real Estate Finance Company ("the Company").

For KPMG Al Fozan & Partners
Certified Public Accountants

Fahad Mubark Al Dossari
License No.: 469

Al Riyadh, 3 Rajab 1441H
Corresponding to: 27 February 2020

AMLAK INTERNATIONAL FOR REAL ESTATE FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF FINANCIAL POSITION
As at 31 December 2019
(SR '000)

	Note	**2019**	2018 *Restated*
ASSETS			
Cash and cash equivalents	*6*	**7,876**	15,965
Investments	*7*	**11,922**	12,484
Murabaha receivables, net	*8*	**123,450**	108,256
Ijara receivables, net	*9*	**3,016,729**	2,902,822
Ijara Mawsofa Fi Athemmah receivables, net	*10*	**57,449**	79,662
Prepayments and other assets	*11*	**127,647**	106,984
Investments in joint ventures	*12*	**--**	7,922
Property and equipment, net	*13*	**60,061**	27,838
Positive fair value of derivatives	*15*	**71**	1,087
Deferred tax asset	*16*	**--**	516
TOTAL ASSETS		**3,405,205**	3,263,536
LIABILITIES AND EQUITY			
Account payables and other accruals	*14*	**147,829**	92,086
Negative fair value of derivatives	*15*	**3,621**	--
Zakat and income tax payable	*16*	**34,380**	36,790
Borrowings	*17*	**2,080,432**	1,994,132
Employees' end of service benefits	*18*	**13,666**	13,618
TOTAL LIABILITIES		**2,279,928**	2,136,626
Share capital	*19*	**906,000**	906,000
Statutory reserve	*20*	**68,416**	61,415
Fair value reserve		**--**	(409)
Cash flow hedge reserve	*15*	**(3,550)**	1,087
Retained earnings		**154,411**	158,817
TOTAL EQUITY		**1,125,277**	1,126,910
TOTAL LIABILITIES AND EQUITY		**3,405,205**	3,263,536

The accompanying notes 1 to 35 form an integral part of these financial statements

AMLAK INTERNATIONAL FOR REAL ESTATE FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2019
(SR '000)

	Note	**2019**	2018 *Restated*
INCOME			
Income from Murabaha contracts		**8,607**	16,370
Income from Ijara contracts		**259,884**	236,590
Income from Ijara Mawsofa Fi Athemmah contracts		**5,529**	6,398
Gain on sale of portfolio		**9,158**	--
Fees and commission income		**13,167**	7,726
Total income from Murabaha, Ijara and Ijara Mawsofa Fi Athemmah		**296,345**	267,084
EXPENSES			
Fee expense		**(2,843)**	(1,582)
Finance cost		**(93,767)**	(88,087)
Net income from Murabaha, Ijara and Ijara Mawsofa Fi Athemmah		**199,735**	177,415
Other operating (loss) / income			
Other (loss) / income		**(562)**	226
		199,173	177,641
OPERATING EXPENSES			
Depreciation and write off	*13*	**(3,501)**	(3,044)
General and administrative expenses	*24*	**(78,404)**	(63,541)
Selling and marketing expenses	*25*	**(13,143)**	(11,469)
Impairment loss on property and equipment	*13*	**--**	(2,100)
Impairment charge for credit losses, net		**(1,752)**	98
Operating profit		**102,373**	97,585
Arrangement fee		**--**	268
Share in net (loss) / income from joint ventures	*12*	**(314)**	(240)
Profit before zakat and income tax		**102,059**	97,613
Zakat and income tax expense:			
- Current year		**(15,441)**	(2,984)
- Prior year		**(16,608)**	(33,474)
NET PROFIT FOR THE YEAR AFTER ZAKAT AND INCOME TAX		**70,010**	61,155
Basic and diluted earnings per share (SR)	*22*	**0.77**	0.68

The accompanying notes 1 to 35 form an integral part of these financial statements

AMLAK INTERNATIONAL FOR REAL ESTATE FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2019
(SR '000)

	Note	**2019**	2018
NET PROFIT FOR THE YEAR		**70,010**	61,155
OTHER COMPREHENSIVE (LOSS) / INCOME			
Items that may be reclassified to profit or loss in subsequent years:			
Net movement in cash flow hedges		**(4,637)**	707
Items that will not to be reclassified to profit or loss in subsequent years:			
Change in fair value of investments held at FVOCI	*7*	**--**	(1,296)
Actuarial gain / (loss) on defined benefit plans	*18*	**944**	(929)
Other comprehensive loss		**(3,693)**	(1,518)
TOTAL COMPREHENSIVE INCOME		**66,317**	59,637

The accompanying notes 1 to 35 form an integral part of these financial statements

AMLAK INTERNATIONAL FOR REAL ESTATE FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2019
(SR '000)

	Share Capital	Statutory reserve	Unrealised gain/(loss) on available for sale investment	Fair value reserve investment at FVOCI	Cash flow hedge reserve	Retained earnings	Total
Balance at 31 December 2018 – as previously reported (audited)	**906,000**	**61,415**	--	**(409)**	**1,087**	**158,301**	**1,126,394**
Impact of change in accounting of zakat and income tax (note 2)	--	--	--	--	--	**516**	**516**
Balance at 31 December 2018 – as restated	**906,000**	**61,415**	--	**(409)**	**1,087**	**158,817**	**1,126,910**
Impact of adoption of new standard and other adjustments at 1 January 2019 (note 3)	--	--	--	**409**	--	**(409)**	--
Net profit for the year	--	--	--	--	--	**70,010**	**70,010**
Other comprehensive loss / income	--	--	--	--	**(4,637)**	**944**	**(3,693)**
Total comprehensive (loss) / income	--	--	--	--	**(4,637)**	**70,954**	**66,317**
Transfer to statutory reserve (note 20)	--	**7,001**	--	--	--	**(7,001)**	--
Dividend (note 21)	--	--	--	--	--	**(67,950)**	**(67,950)**
Balance at 31 December 2019	**906,000**	**68,416**	--	--	**(3,550)**	**154,411**	**1,125,277**
<u>For the year ended 31 December 2018</u>							
Balance at 31 December 2017 – as previously reported (audited)	903,000	51,654	887	--	380	213,375	1,169,296
Impact of change in accounting of zakat and income tax (note 2)	--	--	--	--	--	508	508
Balance at 31 December 2017 – as restated	903,000	51,654	887	--	380	213,883	1,169,804
Impact of adopting of new standards at 1 January 2018	--	--	(887)	887	--	(37,806)	(37,806)
Net profit for the year	--	--	--	--	--	61,155	61,155
Other comprehensive (loss)	--	--	--	(1,296)	707	(929)	(1,518)
Total comprehensive income / (loss)	--	--	--	(1,296)	707	60,226	59,637
Transfer to statutory reserve (note 18)	--	9,761	--	--	--	(9,761)	--
Dividend (note 19)	--	--	--	--	--	(67,725)	(67,725)
Increase in share capital (note 17)	3,000	--	--	--	--	--	3,000
Balance at 31 December 2018 – as restated	906,000	61,415	-	(409)	1,087	158,817	1,126,910

The accompanying notes 1 to 35 form an integral part of these financial statements

AMLAK INTERNATIONAL FOR REAL ESTATE FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF CASH FLOWS
For the year ended 31 December 2019
(SR '000)

	Note	2019	2018
Cash flows from operating activities:			
Net profit for the year before zakat and income tax		**102,059**	97,613
Non-cash adjustment to reconcile net profit before zakat and income tax for the year to net cash from operating activities			
Depreciation	*13*	**3,501**	3,044
Impairment loss on property and equipment	*13*	**--**	2,100
Borrowing cost		**93,767**	88,087
Employees' end of service benefits	*18*	**2,911**	2,495
Impairment allowance for credit losses, net		**1,752**	(98)
Gain on sale of portfolio		**(9,158)**	--
Arrangement fee		**--**	(268)
Other loss / (income)		**562**	(226)
Share of net loss from joint ventures		**314**	240
		195,708	192,987
(Increase) / decrease in operating assets			
Murabaha receivables		**(11,953)**	150,056
Ijara receivables		**(116,840)**	(194,710)
Ijara Mawsofa Fi Athemmah receivables		**20,154**	38,072
Prepayments and other assets		**(5,397)**	1,165
Increase / (decrease) in operating liabilities			
Account payables and other accruals		**25,194**	26,774
Cash generated from operations activities		**106,866**	214,344
Borrowing facility cost paid	*17*	**(93,219)**	(87,717)
Employees' end of service benefits paid	*18*	**(1,919)**	(2,715)
Zakat and income tax paid	*16*	**(34,782)**	(3,398)
Net cash (used in) / generated from operating activities		**(23,054)**	120,514
Cash flows from investing activities			
Purchase of property and equipment	*13*	**(10,076)**	(4,082)
Proceeds from withdrawals of investment in joint ventures	*12*	**7,608**	18,165
Investments in joint ventures	*12*	**--**	(1,235)
Investments at fair value through other comprehensive income		**--**	(893)
Net cash (used in) / generated from investing activities		**(2,468)**	11,955
Cash flows from financing activities			
Repayment against borrowings	*17*	**1,103,000**	(1,164,513)
Proceeds from borrowings	*17*	**(1,016,300)**	1,086,100
Dividend paid	*21*	**(67,950)**	(67,725)
Payment of lease liabilities		**(1,317)**	--
Net cash generated from / (used in) financing activities		**17,433**	(146,138)
Net decrease in cash and cash equivalents		**(8,089)**	(13,669)
Cash and cash equivalents at beginning of the year	*6*	**15,965**	29,634
Cash and cash equivalents at end of the year	*6*	**7,876**	15,965
Non-cash supplemental information:			
Net changes in fair value of cash flow hedge		**(4,637)**	707
Change in fair value of investments at FVOCI		**--**	(1,296)
Issuance of share capital – bonus shares issued	*19*	**--**	3,000
Distribution from joint venture		**--**	4,439
Right-of-use-assets		**24,995**	--
Lease liabilities		**21,984**	--

The accompanying notes 1 to 35 form an integral part of these financial statements

1 THE COMPANY AND THE NATURE OF OPERATIONS

Amlak International for Real Estate Finance Company ("Amlak" or the "Company") is a Saudi Closed Joint Stock Company established and registered in the Kingdom of Saudi Arabia under commercial registration number 1010234356 in Riyadh dated 25 Jumada Awal 1428H (corresponding to 11 June 2007). As part of the mortgage regulations, the Company is in the process of exiting from the investment related business.

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

The registered office of the Company is located King Saud Road Riyadh, Kingdom of Saudi Arabia. A Corporate Office has been established in Jeddah by the Company during the year. The Company has following branches:

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

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

The Company is in the process of listing its equity shares on Tadawul (Kingdom of Saudi Arabia Stock Exchange). In this respect, the Company has obtained Capital Market Authority approval for Initial Public Offering and the Company has six-month period ending in June 2020 for listing its shares.

2 BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements of the Company are prepared:

(a) in accordance with 'International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (SOCPA); and

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

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

On 18 July 2019, SAMA instructed the financing companies in the Kingdom of Saudi Arabia to account for the zakat and income taxes in the statement of profit or loss. This aligns with the IFRS and its interpretations as issued by the International Accounting Standards Board ("IASB") and as endorsed in the Kingdom of Saudi Arabia and with the other standards and pronouncements that are issued by the Saudi Organisation for Certified Public Accountants ("SOCPA") (collectively referred to as "IFRS as endorsed in KSA").

Accordingly, the Company changed its accounting treatment for zakat and income tax by retrospectively adjusting the impact in line with International Accounting Standard 8 "Accounting Policies, Changes in Accounting Estimates and Errors" including the effects of this change, which are disclose in this note.

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

2 BASIS OF PREPARATION (CONTINUED)

Basis of measurement
These financial statements have been prepared under the historical cost convention except for the measurement of derivatives and investments at fair value. Further, employees' end of service benefits are measured at present value of future obligations using the Projected Unit Credit Method.

Functional and presentation currency
These financial statements are presented in Saudi Arabian Riyals ("SR"), which is the Company's functional currency. Except as indicated, the financial information presented in SR has been rounded-off to the nearest thousand.

Change in the accounting for zakat and income tax:
As mentioned above, the basis of preparation has been changed for the year ended 31 December 2019 as a result of the issuance of latest instructions from SAMA dated 18 July 2019. Previously, zakat and income tax were recognized in the statement of changes in equity as per the SAMA circular no 381000074519 dated 11 April 2017. With the latest instructions issued by SAMA dated 18 July 2019, the zakat and income tax shall be recognized in the statement of profit or loss. The Company has accounted for this change in the accounting for zakat and income tax retrospectively and the effects of the above change are disclosed in this note. The change has resulted in reduction of reported income of the Company for the year ended 31 December 2018 by SR 36.458 million. The change has had no impact on the statement of cash flows for the year ended 31 December 2018.

Below is the accounting policies on zakat and income tax:

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

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

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

IFRIC 23 "Uncertainty over Income Tax Treatment"
The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

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

2 BASIS OF PREPARATION (CONTINUED)

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

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

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

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

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

Effect of change in accounting of zakat and income tax:
The change in the accounting treatment for zakat and income tax has the following impact on the line items of the statement of financial position, statements of income and statement of changes in equity:

For the year ended 31 December 2018:

Financial statement impacted	Account	Before restatement	Effect of restatement	As restated
Statement of changes in equity	Provision for zakat and income tax (retained earnings)	(36,466)	36,466	--
Statement of profit or loss	Zakat and income tax expense	--	(36,458)	36,458

As at 31 December 2018:

Financial statement impacted	Account	Before restatement	Effect of restatement	As restated
Statement of financial position	Deferred tax asset	--	516	516
Statement of financial position	Retained earnings	158,301	516	158,817

As at 1 January 2018:

Financial statement impacted	Account	Before restatement	Effect of Restatement	As restated
Statement of financial position	Deferred tax asset	--	508	508
Statement of financial position	Retained earnings	213,375	508	213,883

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

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

Effective 1 January 2019 the Company has adopted a new accounting standard, the impact of the adoption of this standard is explained below:

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

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

Accounting policy applicable on and after 1 January 2019:
On initial recognition at inception of the contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is identified if most of the benefits are flowing to the Company and the Company can direct the usage of such assets.

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

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

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

After the commencement date, Company measures the lease liability by:
1. Increasing the carrying amount to reflect interest on the lease liability.
2. Reducing the carrying amount to reflect the lease payments made and;
3. Re-measuring the carrying amount to reflect any re-assessment or lease modification.

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

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

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

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

RECONCILIATION OF LEASE LIABILITIES

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

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

- Right-of-use asset of SR 3.3 million is included in the “Property and equipment”.
- Lease liability of SR 3.3 million is included in the “Account payables and other accruals”.

As of 31 December 2019, the Statement of Financial Position is impacted by IFRS 16 as follow:

- Right-of-use asset of SR 24 million is included in the “Property and equipment”.
- Lease liability of SR 21 million is included in the “Account payables and other accruals”.

	2019
Maturity Analysis – Contractual undiscounted cash flows	
Less than one year	**3,783**
One to five years	**16,490**
More than five years	**11,000**
Total undiscounted lease liabilities at 31 December	**31,273**
Lease liabilities included in the statement of financial position at 31 December	**21,984**

OTHER ADJUSTMENT

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are consistent with those followed in the preparation of previous year financial statements, except for the policies in note 2 and 3.

The following are the significant accounting policies followed in the preparation of these financial statements:

a) Cash and cash equivalents

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

b) 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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

c) Investments in joint venture

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

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

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

d) 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.

e) Ijara receivables

Ijara receivables represent assets transferred under finance lease under Islamic lease agreement and the present value of the lease payments is recognised as a receivable and disclosed under "Ijara receivables". The difference between the gross receivables and the present value of the receivables is recognised as unearned Ijara income. Ijara income is recognised over the term of the Ijara using the net investment method, which reflects a constant periodic rate of return.

f) Ijara mowsofa fi athema receivables

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Impairment

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

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

No impairment loss is recognized on equity investments.

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

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition

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

Measurement of ECL

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

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

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

Restructured financial assets

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

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

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

Credit-impaired financial assets

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

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

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Collateral valuation
To mitigate its credit risks on financial assets, the Company seeks to use collateral, where possible. The collateral comes in various forms, such as financial guarantees and real estate. Collateral, unless repossessed, is not recorded on the Company statement of financial position. However, the fair value of the real estate collateral affects the calculation of ECL. It is generally assessed, at a minimum, at inception and re-assessed on a periodic basis.

Non-financial collateral, such as real estate, is valued by third party valuers appointed by the Company.

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

h) Financial instruments
All financial assets and financial liabilities are initially recognized on the trade date i.e. the date which the Company becomes party to the contractual provisions of the instrument. Financial assets comprises of cash and cash equivalents, investments, Murabaha receivables, Ijara receivables, Ijara Mawsofa Fi Athemmah receivable, derivative and other receivables. Financial liabilities comprises of borrowings, derivatives, accounts and other payables and other liabilities.

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

Financial asset at amortised cost
A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:
- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

Financial asset at FVTPL
All other financial assets are classified as measured at FVTPL.

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

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

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

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

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

Derecognition

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

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

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

From 1 January 2019, any cumulative gain/loss recognized in OCI in respect of equity investment securities designated as at FVOCI is not recognized in profit or loss on derecognition of such securities. Any profit in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognized as a separate asset or liability.

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Modifications of financial assets and financial liabilities

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

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

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

Offsetting of financial instruments
Financial assets and liabilities are offset and reported net in the statement of financial position when the entity has a legal currently enforceable right to set off the recognised amounts and when the Company intends to settle on a net basis, or to realise the asset and settle the liability simultaneously. Income and expenses are not offset in the statement of profit or loss unless required or permitted by an accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Company.

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

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

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

i) Income / expenses recognition

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

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

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

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

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

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

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

j) *Accrued expenses and other current liabilities*

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

k) *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.

l) *Zakat and income tax*

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

m) *Employees' terminal benefits*

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

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

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

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

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

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

n) *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.

o) *Fee and commission income and expense*

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

p) Borrowing / financing cost

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. finance costs consist of profit and other costs that an entity incurs in connection with the borrowing of funds and amortisation of financial charges and lease laibilities.

q) Statutory reserve

As required by Saudi Arabian Regulations for Companies and the Company's By-laws, 10% of the income for the year (after zakat and after deducting losses brought forward) should be transferred to the statutory reserve. This reserve is not available for distribution. As per the By-laws, the Company may resolve to discontinue such transfers when the reserve totals 30% of the capital.

r) Fair value measurement

The Company measures certain financial instruments, such as, derivatives and equity instruments at fair value at each statement of financial position date. Also, fair values of financial instruments measured at amortized cost are disclosed in note 28.

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

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

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

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

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

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

v) Value added tax ("VAT")
The Company collects VAT from its customers for qualifying services provided, and make VAT payments to its vendors for qualifying payments. On a monthly basis, net VAT remittances are made to the GAZT representing VAT collected from its customers, net of any recoverable VAT on payments. Unrecoverable VAT is borne by the Company and is either expensed or in the case of property, equipment, and intangibles payments, is capitalized and either depreciated or amortized as part of the capital cost.

5 CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

5 CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

ii. *Servicing rights under agency agreements*

An intangible asset is recognised for servicing rights under agency arrangements (acquired by the Company pursuant to sale of originated leases to third parties or as consideration for financing arrangements services) at the present value of net future cash flows under the agency arrangements. The net present value computation encompasses among others, estimates in respect of discount rate and fair value of services.

Assumptions and their sensitivity involved in the calculation of servicing rights under agency arrangements are as follows:

Discount rates:
Discount rate represents the current market assessment of the risks specific to the Company, taking into consideration Company's incremental borrowing rate.

Servicing costs:
The Company assesses the cost of servicing including staff and other costs, to arrive at a base rate per contract.

Early settlement rate:
The company calculates early settlement rate as a percentage of total portfolio sold to the portfolio which is settled till the end of the year.

iii. *Going concern*

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

iv. *Fair value measurement - refer note 4 and 28*

v. *End of service benefits – refer note 16*

(SR'000)

6 CASH AND CASH EQUIVALENTS

	2019	2018
Cash in hand	**33**	25
Cash at bank – current accounts	**7,843**	15,940
	7,876	15,965

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

7 INVESTMENTS

	2019	2018
Investment at fair value through profit and loss (note 7.1)	**11,029**	11,591
Investment at fair value through other comprehensive income	**893**	893
	11,922	12,484

7.1 Investment at FVTPL represents investment in 120 units of SAIB Saraya Tower Real Estate Development Fund (2018: 120 units), a close-ended real estate development fund managed by Alistithmar Capital.

The movement in cost and unrealized loss of the investment at FVTPL during the year was as follows:

	2019	2018
Cost at the beginning and end of the year	**12,000**	12,000
Unrealised (loss) / gain:		
At beginning of the year	**(409)**	887
Change in fair value, net	**(562)**	(1,296)
At end of the year	**(971)**	(409)
Net carrying amount	**11,029**	11,591

8 MURABAHA RECEIVABLES, NET

	2019	2018
Gross Murabaha receivables	**125,419**	113,466
Less: Impairment allowance for credit losses	**(1,969)**	(5,210)
Murabaha receivables, net	**123,450**	108,256

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

Days past due:	**2019**	2018
1 – 30	**1,338**	804
31 – 60	**1,928**	--
61 –90	**812**	5,218
Total	**4,078**	6,022

The fair value of collaterals, based on latest independent appraisals, held against impaired Murabaha receivables as at 31 December was SR 19.63 million (2018: SR 20.84 million).

(SR'000)

8 MURABAHA RECEIVABLES, NET (CONTINUED)

8.2 The maturity profile of gross murabaha receivables as at 31 December was as follows:

	2019	2018
Not later than one year	**28,332**	46,445
Later than one year but not later than five years	**67,760**	63,429
Later than five years	**29,327**	3,592
Total	**125,419**	113,466

8.3 The table below stratifies credit exposures from Murabaha receivables into ranges of receivable to value ratio. Murabaha receivable to value ratio is calculated by dividing the gross amount of the financing to fair value of the underlying property. The gross amount of financing used in calculating this ratio exclude any impairment allowance.

	2019	2018
Less than 50%	**26,696**	41,138
51-70%	**93,826**	57,512
71-85%	**4,897**	14,816
86-100%	**--**	--
Total Exposure	**125,419**	113,466

9 IJARA RECEIVABLES, NET

	2019	2018
Gross Ijara receivables	**4,204,624**	3,948,092
Less: Unearned income	**(1,102,495)**	(962,803)
	3,102,129	2,985,289
Less: Impairment allowance for credit losses	**(85,400)**	(82,467)
Ijara receivables, net	**3,016,729**	2,902,822

9.1 The ageing of past due but not impaired Ijara receivables are as follows:

Days past due:	**2019**	2018
1 – 30	**151,548**	189,807
31 – 60	**121,152**	106,236
61 –90	**60,094**	105,262
Total	**332,794**	401,305

The fair value of collaterals, based on latest independent appraisals, held against impaired Ijara receivables as at 31 December was SR 474.13 million (2018: SR 644.67 million).

9.2 The maturity profile of Ijara receivables as at 31 December is as follows:

	2019			
	Not later than one year	**Later than one year but not later than five years**	**Later than five years**	**Total**
Ijara receivables	**901,098**	**2,140,538**	**1,162,988**	**4,204,624**
Less: Unearned income	**(245,512)**	**(568,681)**	**(288,302)**	**(1,102,495)**
	655,586	**1,571,857**	**874,686**	**3,102,129**
Less: Impairment allowance for credit losses				**(85,400)**
Ijara receivables, net				**3,016,729**

(SR'000)

9 IJARA RECEIVABLES, NET (CONTINUED)

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

9.3 The table below stratifies credit exposures from Ijara receivables into ranges of receivable to value ratio. Ijara receivable to value ratio is calculated by dividing the gross amount of the financing to fair value of the underlying property. The gross amount of financing used in calculating this ratio excludes unearned income and any impairment allowance.

	2019	2018
Less than 50%	**829,140**	718,758
51-70%	**1,055,360**	1,283,993
71-85%	**793,891**	579,509
86-100%	**391,495**	403,028
Above 100%	**32,243**	--
Total Exposure	**3,102,129**	2,985,289

10 IJARA MAWSOFA FI ATHEMMAH RECEIVABLES, NET

	2019	2018
Gross Ijara Mawsofa Fi Athemmah receivables	**128,100**	131,864
Less: Unearned income	**(68,363)**	(51,973)
	59,737	79,891
Less: Impairment allowance for credit losses	**(2,288)**	(229)
Ijara Mawsofa Fi Athemmah receivables, net	**57,449**	79,662

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

Days past due:	**2019**	2018
1 – 30	**731**	--
31 – 60	**1,411**	2,583
61 –90	**--**	--
Total	**2,142**	2,583

There were no collaterals held against impaired Ijara Mawsofa Fi Athemmah receivables.

(SR'000)

10 IJARA MAWSOFA FI ATHEMMAH RECEIVABLES, NET (CONTINUED)

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

	2019			
	Not later than one year	**Later than one year but not later than five years**	**Later than five years**	**Total**
Ijara Mawsofa Fi Athemmah receivables	**10,387**	**35,902**	**81,811**	**128,100**
Less: Unearned income	**(6,763)**	**(23,310)**	**(38,290)**	**(68,363)**
	3,624	**12,592**	**43,521**	**59,737**
Less: Impairment allowance for credit losses				**(2,288)**
Ijara Mawsofa Fi Athemmah receivables, net				**57,449**

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

10.3 The table below stratifies credit exposures from Ijara Mawsofa Fi Athemmah receivables into ranges of receivable to value ratio. Ijara Mawsofa Fi Athemmah receivables to value ratio is calculated by dividing the gross amount of the financing to fair value of the underlying property. The gross amount of financing used in calculating this ratio excludes unearned income and any impairment allowance.

	2019	2018
Less than 50%	**23,199**	1,545
51-70%	**13,713**	19,938
71-85%	**14,245**	33,649
86-100%	**5,770**	24,759
Above 100%	**2,810**	--
Total Exposure	**59,737**	79,891

11 PREPAYMENTS AND OTHER ASSETS

	2019	2018
Other real estate assets (note 11.1)	**78,911**	84,951
Value added tax receivable (note 11.2)	**23,307**	4,613
Receivable from joint ventures	**5,575**	4,784
Accrued profit on derivatives	**840**	965
Prepaid rent	**200**	3,619
Others	**18,814**	8,053
	127,647	106,984

11 PREPAYMENTS AND OTHER ASSETS (CONTINUED)

11.1 During 2017, one joint venture was liquidated. All the underlying assets of that joint ventures was settled in kind between the joint venture partners proportionate to their respective share. The Company considered these assets as held for sale and were carried at the lower of cost and the fair value of the related properties, less any costs to sell.

11.2 This includes receivable from Ministry of Housing ("MOH") against VAT receivables and advance VAT paid to GAZT (note 30).

12 INVESTMENTS IN JOINT VENTURES

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

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

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

In 2019, the Company's interest in the joint venture has been extinguished as the joint ventures sold all the properties and proceed of the sales are distributed to co-ventures. Hence, as at 31 December 2019, the Company has no commitment for additional contribution to the joint ventures.

(SR'000)

12 INVESTMENTS IN JOINT VENTURES (CONTINUED)

a) Movement in investments in joint ventures is as follows:

2019	**Location**	**% of shareholding**	**Opening balance**	**Additions**	**Share in net income / (loss)**	**Distributions**	**Closing balance**
a) Dar wa Emar, Rahba	AlRahba, AlKhobar	90	**5,050**	**--**	**(564)**	**(4,486)**	**--**
b) AbdulAziz Al Qassim, Malga III	Malga, Riyadh	40	**2,872**	**--**	**250**	**(3,122)**	**--**
			7,922	**--**	**(314)**	**(7,608)**	**--**

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

(SR'000)

13 PROPERTY AND EQUIPMENT, NET

2019	Land	Leasehold improvements	Office equipment	Furniture and fixtures	Information technology equipment	Right of use asset*	Work in Progress**	Total
Cost:								
Balance at beginning of the year	13,650	3,382	743	1,868	18,800	--	10,018	48,461
IFRS 16 adjustment as at 1 January 2019	--	--	--	--	--	3,262	--	3,262
Additions	--	7	94	144	1,785	22,388	8,044	32,462
Transfers	--	--	--	--	8,395	--	(8,395)	--
Write off	--	(65)	--	--	--	--	(639)	(704)
Balance at end of the year	13,650	3,324	837	2,012	28,982	25,650	9,028	83,483
Accumulated depreciation:								
Balance at beginning of the year	--	2,235	562	1,859	15,969	--	--	20,625
Charge for the year	--	323	77	21	1,785	655	--	2,861
Reversal due to write off	--	(65)	--	--	--	--	--	(65)
Balance at end of the year	--	2,493	639	1,880	17,755	655	--	23,422
Net book value: At 31 December 2019	13,650	831	198	132	11,227	24,995	9,028	60,061

* Right of use assets pertains to lease of premises of the Company's head office and its branches.

**Work in progress as at 31 December 2019 represents mainly the amount paid for information technology system implementation / upgrade and the new head office.

(SR'000)

13 PROPERTY AND EQUIPMENT NET (CONTINUED)

2018	Land	Leasehold improvements	Office equipment	Furniture and fixtures	Information technology equipment	Work in Progress**	Total
Cost:							
Balance at beginning of the year	15,750	3,664	723	2,486	18,574	7,074	48,271
Additions	-	495	20	72	551	2,944	4,082
Write off	-	(776)	-	(690)	(325)	-	(1,791)
Balance at end of the year	15,750	3,382	743	1,868	18,800	10,018	50,562
Accumulated depreciation:							
Balance at beginning of the year	-	2,247	494	2,069	14,562	-	19,372
Charge for the year	-	386	68	137	1,664	-	2,255
Reversal due to write off	-	(398)	-	(347)	(257)	-	(1,003)
Balance at end of the year	-	2,235	562	1,859	15,968	-	20,624
Impairment loss*	2,100	-	-	-	-	-	2,100
Net book value: At 31 December 2018	13,650	1,148	181	9	2,832	10,018	27,838

*In 2018, the Company recognized an impairment loss of SR 2.1 million on land, as a difference between the recoverable amount and carrying value.

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

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

(SR'000)

14 ACCOUNTS PAYABLE AND OTHER ACCRUALS

	2019	2018
Financing to customers (note 14.1)	**37,697**	21,163
Payable to MOH (note 14.2)	**33,357**	26,278
Lease liabilities	**21,984**	--
Salaries and employee related expenses	**15,823**	10,205
Accrued expenses	**9,701**	6,330
Amount received from customers (note 14.3)	**7,351**	8,857
Others (notes 14.4 and 30)	**21,916**	19,253
	147,829	92,086

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

14.2 This pertains to property purchase for customers in a scheme introduced by MOH.

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

14.4 This includes amount pertaining to late payment charges accrued from customers equal to SR 8.51 million (2018: SR 14.68 million). In accordance with the Shari'a advisor, late payment charges collected are recognized as other liabilities in the statement of financial position and are paid as charity.

15 DERIVATIVES

As at 31 December 2019, the Company held profit rate swaps ("PRS") of a notional value of SR 300 million (2018: SR 200 million) in order to hedge its exposure to commission rate risks related to long term financing and leasing. The table below shows the fair values of derivative financial instruments, recorded as assets and liabilities:

	Positive fair value of PRSs	**Negative fair value of PRSs**	**Cash flow hedge reserve**
2019	**71**	**(3,621)**	**(3,550)**
2018	1,087	-	1,087

16 ZAKAT AND INCOME TAX

a) Deferred tax asset

	For the year ended 31 December	
	2019	2018 *Restated*
Opening balance	**516**	508
(Utilization) / origination of temporary difference	**(516)**	8
Closing balance	**--**	516

The deferred tax arises on end of service benefits, allowance for expected credit losses and depreciation of property and equipment

(SR'000)

16 ZAKAT AND INCOME TAX (CONTINUED)

2019	**Opening deferred tax**	**Recognised in P&L**	**Closing deferred tax**
Deductible temporary difference			
Allowances for expected credit losses	457	(457)	--
End of service benefit	71	(71)	--
Total	**528**	**(528)**	--
Taxable temporary difference			
Depreciation of property and equipment	(12)	12	--
Total	**(12)**	**12**	--
Net of deductible and taxable temporary difference	**516**	**(516)**	--

2018	Opening deferred tax	Recognised in P&L	Closing deferred tax
Deductible temporary difference			
Allowances for expected credit losses	458	(1)	457
End of service benefit	67	4	71
Total	525	3	528
Taxable temporary difference			
Depreciation of property and equipment	(17)	5	(12)
Total	(17)	5	(12)
Net of deductible and taxable temporary difference	508	8	516

b) The movement in zakat and income tax is as follow:

	31 December 2019		
	Zakat	**Income tax**	**Total**
Balance at the beginning of the year	**36,147**	**643**	**36,790**
Charge for the year:			
- current year	**14,857**	**68**	**14,925**
- prior years	**16,367**	**241**	**16,608**
	31,224	**309**	**31,533**
Unwinding of discount	**839**	**--**	**839**
Payments made during the year	**(34,030)**	**(752)**	**(34,782)**
Balance as at end of the year	**34,180**	**200**	**34,380**

	31 December 2018		
	Zakat	Income tax	Total
Balance at the beginning of the year	2,937	785	3,722
Charge:			
- current year	2,481	511	2,992
- prior years	33,474	--	33,474
	35,955	511	36,466
Payments made during the year	(2,745)	(653)	(3,398)
Balance as at end of the year	36,147	643	36,790

(SR'000)

16 ZAKAT AND INCOME TAX (CONTINUED)

c) Zakat and Income tax expense

Breakup of zakat and income tax expense in the statement of profit and loss is as follows:

	For the year ended 31 December	
	2019	2018 *Restated*
Charge / (reversal) for the year:		
- Current tax and zakat	**14,925**	2,992
- Prior years	**16,608**	33,474
- Deferred tax for the year	**516**	(8)
Charge for the year	**32,049**	36,458

d) Income tax reconciliation

	For the year ended 31 December	
	2019	2018
Accounting profit for the year	**102,059**	97,613
Permanent differences	**3,359**	11,357
Adjusted accounting profit for the year	**105,418**	108,970
Non-GCC shareholder share (0.3244% / 2.345%)	**341**	2,555
Tax charge on Income @ 20%	**68**	511

e) Zakat and income tax assessment status

Zakat and income tax declaration for all the years up to 2018 have been filed with the GAZT and acknowledgement certificates have been obtained.

Following is the zakat and income tax status of the Company;

2007 to 2012:

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

The Company reached a final settlement with the GAZT whereby the zakat, income tax, and related penalty differences for the years 2007 to 2012 were reduced to SR 12,621,875 as follows:-

- Zakat differences of SR 12,396,758
- Tax differences of SR 205,117
- Penalty differences of SR 20,000

Pursuant to the settlement agreement, the Company paid SR 12.6 million during the year 2019.

2013 to 2017:

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

The Company has signed a settlement agreement with GAZT in respect of zakat assessment years from 2013 to 2017. Pursuant to this settlement agreement, the Company is liable to pay an amount of SR 33.6 million in six instalments over five years as the final settlement for its zakat assessment. During the year, the Company has paid two instalments to GAZT amounted to SR 12.24 million.

(SR'000)

16 ZAKAT AND INCOME TAX (CONTINUED)

2018

Under the settlement agreement for the year 2013 to 2017, the GAZT has defined the zakat computation method for the year 2018. Accordingly, the Company recorded and paid the zakat liability for the year 2018.

2019

The Company has recorded zakat provision for the year ended 31 December 2019 in accordance with new zakat regulations issued on 17 March 2019.

17 BORROWINGS

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

	2019	2018
Borrowings:		
Current portion	**714,910**	809,736
Non-current portion	**1,365,522**	1,184,396
	2,080,432	1,994,132

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

	2019	2018
Balance at beginning of the year	**1,994,132**	2,072,175
Borrowings made during the year	**1,103,000**	1,086,100
Principal repayments during the year	**(1,016,300)**	(1,164,513)
Profit accrued during the year	**92,819**	88,087
Profit repayments during the year	**(93,219)**	(87,717)
Balance at end of the year	**2,080,432**	1,994,132

18 EMPLOYEES' END OF SERVICE BENEFITS

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

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

	2019	2018
Present value of defined benefit obligation	**13,666**	13,618

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

	For the year ended 31 December	
	2019	2018
Current service cost	**2,253**	2,082
Interest cost	**658**	413
Benefit expense	**2,911**	2,495

(SR'000)

18 EMPLOYEES' END OF SERVICE BENEFITS (CONTINUED)

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

	For the year ended 31 December	
	2019	2018
Present value of defined benefit obligation at beginning of the year	**13,618**	12,909
Charge recognised in the statement of profit or loss:		
Current service cost	**2,253**	2,082
Finance cost	**658**	413
	2,911	2,495
Actuarial (gain) / loss on defined benefit plan recognized in the statement of other comprehensive income	**(944)**	929
Benefits paid	**(1,919)**	(2,715)
Present value of defined benefit obligation at end of the year	**13,666**	13,618

d) Principal actuarial assumptions:

	2019	2018
Discount rate	**3.3%**	4.6%
Salary increase rate	**3.3%**	4.6%

e) Sensitivity analysis

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

	31 December 2019		31 December 2018	
	Increase	**Decrease**	Increase	Decrease
Discount rate (1%/ 0.5% movement)	**(1,047)**	**1,200**	(675)	731
Future salary growth (1% / 0.5% movement)	**1,216**	**(1,082)**	750	(699)

19 SHARE CAPITAL

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

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 is transferred to statutory reserve until such reserve equals 30% of the Company's share capital. This reserve is not available for distribution to the shareholders. During the year, the Company has transferred SR 7.0 million (2018: SR 9.8 million) to statutory reserve.

21 DIVIDENDS

During the current year, the shareholders have approved, declared and paid dividend of SR 67.95 million (for the year ended 31 December 2018: SR 67.73 million).

22 EARNINGS PER SHARE

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

	2019	2018 Restated
Profit for the year (SR '000)	**70,010**	61,155
Weighted average number of ordinary shares (in thousands)	**90,600**	90,496
Basic and diluted earnings per share (SR)	**0.77**	0.68

23 SERVICING RIGHTS UNDER AGENCY ARRANGEMENTS

The Company enters into arrangements for servicing Ijara receivables and ijara mowsofa fi athema receivables on behalf of third parties. Such receivables represent instruments initially originated by the Company and subsequently sold to third party. The Company acts in the sole capacity of servicing agent represented by activities such as collection of Ijara receivables rentals on behalf of the principals. No credit risk is assumed by the Company throughout the period of servicing.

During the year, the Company sold its financing portfolio amounted to SR 235.68 million (31 December 2018: SR 104.65 million) and entered into an agency contract for servicing these receivables. The outstanding balance of portfolio, which the Company is servicing as at 31 December 2019 amounted to SR 307.38 Million (2018: SR 104.36 Million)

Assumptions involved in the calculation of servicing rights under agency arrangements are as follows:

Discount rates:
Discount rate represents the current market assessment of the risks specific to the Company, taking into consideration Company's incremental borrowing rate.

Servicing costs:
The Company assesses the cost of servicing including staff and other costs, to arrive at a base rate per contract.

Early settlement rate:
The Company calculates early settlement rate as a percentage of total portfolio sold to SRC to the portfolio which is settled till the end of the year.

24 GENERAL AND ADMINISTRATIVE EXPENSES

	For the year ended 31 December	
	2019	2018
Salaries and employee related cost	**53,937**	45,923
Information technology expenses	**4,448**	2,259
Professional fee	**2,863**	3,134
Board fee and expenses	**2,530**	2,461
Rent	**2,044**	3,241
Travelling expenses	**1,139**	1,122
Maintenance expenses	**937**	687
Communication	**750**	756
Others	**9,756**	3,958
	78,404	63,541

(SR'000)

25 SELLING AND MARKETING EXPENSES

	For the year ended 31 December	
	2019	2018
Salaries and outsourcing cost	**5,825**	5,724
Insurance	**3,975**	2,545
Marketing expenses	**3,343**	3,200
	13,143	11,469

26 RELATED PARTY TRANSACTIONS AND BALANCES

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

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

Nature of transactions	**Name of related party and relationship**	**Amounts of transactions for the year ended 31 December**	
		2019	2018
Borrowing cost	The Saudi Investment Bank (shareholder)	**27,146**	23,529
Rent expense	Saudi Orix Leasing (affiliate)	**1,592**	1,592
Security and other expenses	Saudi Orix Leasing (affiliate)	**224**	210
Arrangement fee	Alistithmar Capital (affiliate)	**--**	268
PRS (profit) or cost received / paid	The Saudi Investment Bank (shareholder)	**(213)**	(157)
Salaries and benefits	Key management personnel	**10,773**	13,390
Board meeting fees and other expenses	Board members	**2,530**	2,461

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26 RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

Nature of balances and names of related parties	Relationship	Balances 2019	Balances 2018
Bank balances:			
The Saudi Investment Bank	Shareholder	**7,340**	7,809
Due from related parties:			
Tharaa Real Estate Investment	Joint venture	**878**	3,009
Dar Wa Emar – Rahba	Joint venture	**2,923**	--
Alistithmar Capital	Affiliate	**1,775**	1,775
Borrowings:			
The Saudi Investment Bank	Shareholder	**615,821**	441,740
Notional amount of Profit Rate Swaps:			
The Saudi Investment Bank	Shareholder	**50,000**	50,000
Financing and advances:			
Key management personnel	Key management	**3,731**	4,005
Investment at FVOCI:			
SAIB Saraya Tower Real Estate Development Fund	Affiliate	**11,029**	11,591
Other receivables:			
Amlak International For Real Estate Development	Subsidiary	**305**	305
Receivable against initial public offering	Shareholders	**4,649**	3,281
Prepaid rent:			
Saudi Orix Leasing	Affiliate	**--**	398
Board meeting and other expenses payable			
Board members	Board members	**3,739**	1,276

27 FINANCIAL RISK MANAGEMENT

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

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

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

1) Credit risk

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

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

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27 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

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

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

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

	2019	2018
Cash and cash equivalents	**7,843**	15,940
Murabaha receivables, net	**123,450**	108,256
Ijara receivables, net	**3,016,729**	2,902,822
Ijara Mawsofa Fi Athemmah receivables, net	**57,449**	79,662
Other receivables	**37,499**	15,168
	3,242,970	3,121,848

a) Credit quality analysis

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

2019:

	Stage 1 - 12 month ECL		
Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables	**Gross exposure**	**Impairment allowance for credit losses**	**Net exposure**
Grades 1 to 4-	**443,539**	**148**	**443,391**
Grades 5+ to 7-	**761,154**	**966**	**760,188**
Unrated	**797,169**	**2,959**	**794,210**
Total	**2,001,862**	**4,073**	**1,997,789**

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28 FINANCIAL RISK MANAGEMENT (CONTINUED)

Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables	**Stage 2 - Lifetime ECL (not credit impaired)**		
	Gross exposure	**Impairment allowance for credit losses**	**Net exposure**
Grades 1 to 4-	**64,933**	**78**	**64,855**
Grades 5+ to 7-	**719,489**	**22,618**	**696,871**
Unrated	**180,714**	**753**	**179,961**
Total	**965,136**	**23,449**	**941,687**

Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables	**Stage 3 - Lifetime ECL (credit impaired)**		
	Gross exposure	**Impairment allowance for credit losses**	**Net exposure**
Grades 1 to 4-	**22,057**	**2,899**	**19,158**
Grades 5+ to 7-	**71,664**	**9,265**	**62,399**
Grades 8 to 10	**189,920**	**39,814**	**150,106**
Unrated	**36,646**	**10,157**	**26,489**
Total	**320,287**	**62,135**	**258,152**

2018:

Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables	Stage 1 - 12 month ECL		
	Gross exposure	Impairment allowance for credit losses	Net exposure
Grades 1 to 4-	530,189	2,399	527,790
Grades 5+ to 7-	676,284	4,648	671,636
Unrated	785,622	1,631	783,991
Total	1,992,095	8,678	1,983,417

Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables	Stage 2 - Lifetime ECL (not credit impaired)		
	Gross exposure	Impairment allowance for credit losses	Net exposure
Grades 5+ to 7-	635,055	14,588	620,466
Unrated	174,922	1,223	173,700
Total	809,977	15,811	794,166

Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables	Stage 3 - Lifetime ECL (credit impaired)		
	Gross exposure	Impairment allowance for credit losses	Net exposure
Grades 5+ to 7-	116,345	17,280	90,065
Grades 8 to 10	228,857	42,468	186,389
Unrated	31,372	3,669	27,703
Total	376,574	63,417	313,157

29 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

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

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

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

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

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

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

i) Credit risk grades

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

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

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

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

27 FINANCIAL RISK MANAGEMENT (CONTINUED)

ii) Generating the term structure of PD

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

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

iii) Determining whether credit risk has increased significantly

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

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

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

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

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

The Company monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default; and
- the criteria do not align with the point in time when an asset becomes 30 days past due;

iv) Modified financial assets

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

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

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

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27 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

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

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

v) Incorporation of forward looking information

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

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

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

Economic Indicators	**31 December 2019**	31 December 2018
Oil prices	**Upside 15%** **Base case 70%** **Downside 15%**	Upside 15% Base case 70% Downside 15%
Gross domestic product	**Upside 15%** **Base case 70%** **Downside 15%**	--

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

27 FINANCIAL RISK MANAGEMENT (CONTINUED)

vi) Definition of 'Default'

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

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

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

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

vii) Measurement of ECL

The key inputs into the measurement of ECL are the following risk estimates:

i. probability of default (PD);
ii. loss given default (LGD); and
iii exposure at default (EAD).

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

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

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

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

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

(SR'000)

27 FINANCIAL RISK MANAGEMENT (CONTINUED)

Loss allowance

The following table shows reconciliations from the opening to the closing balance of the gross receivables and loss allowance based on customer categories for the year ended 31 December 2019.

GROSS EXPOSURE - CORPORATE	**12 Month ECL**	**Lifetime ECL (not credit impaired)**	**Lifetime ECL (credit impaired)**	**Total**
Balance at 1 January, 2019	**795,159**	**324,685**	**308,973**	**1,428,817**
Transfer from 12 Month ECL	(151,455)	127,562	23,893	--
Transfer from Lifetime ECL (not credit impaired)	8,284	(82,620)	74,336	--
Transfer from Lifetime ECL (credit impaired)	--	14,149	(14,149)	--
Net repayment received during the year	(298,347)	(56,129)	(52,724)	(407,200)
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the year	237,355	39,127	5,328	281,810
Balance at 31 December, 2019	**590,996**	**366,774**	**345,657**	**1,303,427**

LOSS ALLOWANCE - CORPORATE	**12 Month ECL**	**Lifetime ECL (not credit impaired)**	**Lifetime ECL (credit impaired)**	**Total**
Balance at 1 January, 2019	6,735	13,003	57,151	76,889
Transfer from 12 Month ECL	(1,298)	899	399	--
Transfer from Lifetime ECL (not credit impaired)	197	(2,103)	1,906	--
Transfer from Lifetime ECL (credit impaired)	--	1,922	(1,922)	--
Net re-measurement of loss allowance	(3,711)	(10,578)	4,307	(9,982)
Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables that have been derecognized during the year	(1,595)	(1,110)	(5,288)	(7,993)
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the year	526	66	532	1,124
Balance at 31 December, 2019	**857**	**2,098**	**57,084**	**60,038**

GROSS EXPOSURE - HIGH NET WORTH INDIVIDUALS	**12 Month ECL**	**Lifetime ECL (not credit impaired)**	**Lifetime ECL (credit impaired)**	**Total**
Balance at 1 January, 2019	**411,314**	**310,370**	**36,228**	**757,912**
Transfer from 12 Month ECL	(99,467)	84,114	15,353	--
Transfer from Lifetime ECL (not credit impaired)	2,841	(71,540)	68,699	--
Transfer from Lifetime ECL (credit impaired)	-	18,841	(18,841)	--
Net repayment received during the year	(183,082)	(147,025)	(1,803)	(331,910)
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the year	482,092	53,500	7,737	543,329
Balance at 31 December, 2019	**613,698**	**248,260**	**107,373**	**969,331**

(SR'000)

27 FINANCIAL RISK MANAGEMENT (CONTINUED)

LOSS ALLOWANCE - HIGH NET WORTH INDIVIDUALS	**12 Month ECL**	**Lifetime ECL (not credit impaired)**	**Lifetime ECL (credit impaired)**	**Total**
Balance at 1 January, 2019	312	1,585	2,597	4,494
Transfer from 12 Month ECL	(97)	71	26	--
Transfer from Lifetime ECL (not credit impaired)	2	(307)	305	--
Transfer from Lifetime ECL (credit impaired)	--	497	(497)	--
Net re-measurement of loss allowance	(117)	(587)	11,723	11,019
Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables that have been derecognized during the year	(40)	(1,038)	(201)	(1,279)
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the year	197	210	1,108	1,515
Balance at 31 December, 2019	**257**	**431**	**15,061**	**15,749**

GROSS EXPOSURE - RETAIL	**12 Month ECL**	**Lifetime ECL (not credit impaired)**	**Lifetime ECL (credit impaired)**	**Total**
Balance at 1 January, 2019	**785,622**	**174,923**	**31,372**	**991,917**
Transfer from 12 Month ECL	(88,940)	88,940	--	--
Transfer from Lifetime ECL (not credit impaired)	29,628	(43,447)	13,819	--
Transfer from Lifetime ECL (credit impaired)	882	6,585	(7,467)	--
Net repayment received during the year	(368,312)	(66,988)	(1,891)	(437,191)
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the year	438,290	20,701	810	459,801
Balance at 31 December, 2019	**797,170**	**180,714**	**36,643**	**1,014,527**

LOSS ALLOWANCE - RETAIL	**12 Month ECL**	**Lifetime ECL (not credit impaired)**	**Lifetime ECL (credit impaired)**	**Total**
Balance at 1 January, 2019	1,631	1,223	3,669	6,523
Transfer from 12 Month ECL	(176)	176	--	--
Transfer from Lifetime ECL (not credit impaired)	195	(275)	80	--
Transfer from Lifetime ECL (credit impaired)	11	108	(119)	--
Net re-measurement of loss allowance	1,418	(251)	6,340	7,507
Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables that have been derecognized during the year	(526)	(374)	(10)	(910)
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the year	407	145	198	750
Balance at 31 December, 2019	**2,960**	**752**	**10,158**	**13,870**

(SR'000)

27 FINANCIAL RISK MANAGEMENT (CONTINUED)

The following table shows reconciliations from the opening to the closing balance of the gross receivables and loss allowance based on customer categories for the year ended 31 December 2018.

GROSS EXPOSURE – CORPORATE	**12 Month ECL**	**Lifetime ECL (not credit impaired)**	**Lifetime ECL (credit impaired)**	**Total**
Balance at 1 January, 2018	787,404	224,964	385,171	1,397,539
Transfer from 12 Month ECL	(127,194)	107,938	19,256	--
Transfer from Lifetime ECL (not credit impaired)	62,489	(74,573)	12,084	--
Transfer from Lifetime ECL (credit impaired)	--	69,287	(69,287)	--
Net repayment received during the year	(269,835)	(73,029)	(38,251)	(381,115)
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the year	342,295	70,098	--	412,393
Balance at 31 December, 2018	795,159	324,685	308,973	1,428,817

LOSS ALLOWANCE – CORPORATE	**12 Month ECL**	**Lifetime ECL (not credit impaired)**	**Lifetime ECL (credit impaired)**	**Total**
Balance at 1 January, 2018	7,303	5,733	67,164	80,200
Transfer from 12 Month ECL	(1,962)	1,765	197	--
Transfer from Lifetime ECL (not credit impaired)	1,139	(1,716)	577	--
Transfer from Lifetime ECL (credit impaired)	-	12,371	(12,371)	--
Net re-measurement of loss allowance	(1,961)	(9,183)	5,249	(5,895)
Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables that have been derecognized during the year	(923)	(262)	(3,665)	(4,850)
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the year	3,139	4,295	-	7,434
Balance at 31 December, 2018	**6,735**	**13,003**	**57,151**	**76,889**

GROSS EXPOSURE - HIGH NET WORTH INDIVIDUALS	**12 Month ECL**	**Lifetime ECL (not credit impaired)**	**Lifetime ECL (credit impaired)**	**Total**
Balance at 1 January, 2018	545,936	93,263	127,015	766,214
Transfer from 12 Month ECL	(112,900)	112,900	--	--
Transfer from Lifetime ECL (not credit impaired)	7,308	(16,701)	9,393	--
Transfer from Lifetime ECL (credit impaired)	--	98,992	(98,992)	--
Net repayment received during the year	(194,515)	(42,188)	(1,188)	(237,891)
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the period	165,485	64,104	--	229,589
Balance at 31 December, 2018	411,314	310,370	36,228	757,912

(SR'000)

27 FINANCIAL RISK MANAGEMENT (CONTINUED)

LOSS ALLOWANCE - HIGH NET WORTH INDIVIDUALS	12 Month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Balance at 1 January, 2018	451	405	3,510	4,366
Transfer from 12 Month ECL	(87)	87	--	--
Transfer from Lifetime ECL (not credit impaired)	10	(68)	58	--
Transfer from Lifetime ECL (credit impaired)	--	2,603	(2,603)	--
Net re-measurement of loss allowance	(94)	(1,603)	1,632	(65)
Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables that have been derecognized during the year	(105)	(19)	--	(124)
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the year	137	180	--	317
Balance at 31 December, 2018	**312**	**1,585**	**2,597**	**4,494**

GROSS EXPOSURE – RETAIL	12 Month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Balance at 1 January, 2018	831,486	152,527	24,300	1,008,313
Transfer from 12 Month ECL	(77,222)	74,671	2,551	--
Transfer from Lifetime ECL (not credit impaired)	35,449	(50,152)	14,703	--
Transfer from Lifetime ECL (credit impaired)	--	6,253	(6,253)	--
Net repayment received during the year	(215,115)	(38,130)	(4,688)	(257,933)
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the period	211,024	29,753	760	241,537
Balance at 31 December, 2018	785,622	174,923	31,372	991,917

LOSS ALLOWANCE - RETAIL	12 Month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Balance at 1 January, 2018	1,667	1,419	352	3,438
Transfer from 12 Month ECL	(162)	157	5	--
Transfer from Lifetime ECL (not credit impaired)	406	(571)	165	--
Transfer from Lifetime ECL (credit impaired)	--	89	(89)	--
Net re-measurement of loss allowance	(478)	37	3,271	2,830
Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables that have been derecognized during the year	(274)	(129)	(50)	(453)
New Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivables originated during the year	472	221	15	708
Balance at 31 December, 2018	**1,631**	**1,223**	**3,669**	**6,523**

d. Collateral

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

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27 FINANCIAL RISK MANAGEMENT (CONTINUED)

2) Market rate risk

a) Profit rate risk

Profit rate risk is the uncertainty of future earnings resulting from fluctuations in profit rates. The risk arises when there is a mismatch in the assets and liabilities which are subject to profit rate adjustment within a specified period. The most important source of such rate risk is the Company's borrowings and financing activities, where fluctuations in profit rates, if any, are reflected in the results of operations.
The following table depicts the sensitivity to a reasonable possible change in profit rates, with other variables held constant, on the Company's statement of profit or loss. The sensitivity of the income is the effect of the assumed changes in profit rates on the net commission income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at yearend. All the exposures are monitored and analysed in major currency concentrations and relevant sensitivities are disclosed in SR thousands.

	2019		2018	
	Change in basis points	**Impact on net profit**	Change in basis points	Impact on net profit
Saudi Riyals	**+100**	**(8,274)**	+100	8,415
Saudi Riyals	**-100**	**8,274**	-100	(8,415)

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

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

	Profit bearing					
31 December 2019	**Within 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Non-profit bearing**	**Total**
Assets						
Cash and cash equivalents	--	--	--	--	7,876	**7,876**
Investments	--	--	--	--	11,922	**11,922**
Murabaha receivables, net	6,888	21,026	66,677	28,859	--	**123,450**
Ijara receivables, net	187,007	1,092,669	1,283,958	453,095	--	**3,016,729**
Ijara Mawsofa Fi Athemmah receivables, net	814	52,966	476	3,193		**57,449**
Positive fair value of derivatives	--	--	--	--	71	**71**
Other receivables	--	--	--	--	37,499	**37,499**
Total assets	194,709	1,166,661	1,351,111	485,147	57,368	**3,254,996**
Liabilities						
Negative fair value of derivatives	--	--	--	--	3,621	**3,621**
Borrowings	1,638,188	390,097	52,147	--	--	**2,080,432**
Other liabilities	334	1,661	8,444	11,544	116,145	**138,128**
Total liabilities	1,638,522	391,758	60,591	11,544	119,766	**2,222,181**
Gap	**(1,443,813)**	**774,903**	**1,290,520**	**473,603**	**(62,398)**	**1,032,815**
Cumulative Gap	**(1,443,813)**	**(668,910)**	**621,610**	**1,095,213**	**1,032,815**	

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27 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

	Profit bearing					
31 December 2018	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-profit bearing	Total
Assets				-		
Cash and cash equivalents	-	-	-	-	15,965	15,965
Investments	-	-	-	-	12,484	12,484
Murabaha receivables, net	10,784	33,581	60,467	3,424	-	108,256
Ijara receivables, net	463,296	1,099,035	1,217,080	123,411	-	2,902,822
Ijara Mawsofa Fi Athemmah receivables, net	24,730	54,932	-	-	-	79,662
Positive fair value of derivatives	-	-	-	-	1,087	1,087
Other receivables	-	-	-	-	15,168	15,168
	498,810	1,187,548	1,277,547	126,835	44,704	3,135,444
Liabilities						
Borrowings	1,530,360	372,814	90,958	-	-	1,994,132
Other liabilities	-	-	-	-	75,550	75,550
Total Liabilities	1,530,360	372,814	90,958	-	75,550	2,069,682
Gap	(1,031,550)	814,734	1,186,589	126,835	(30,846)	1,065,762
Cumulative Gap	(1,031,550)	(216,816)	969,773	1,096,608	1,065,762	

b) Currency risk

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

3) Liquidity risk

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

a) Analysis of financial liabilities by remaining contractual maturities

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

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27 FINANCIAL RISK MANAGEMENT (CONTINUED)

	Fixed maturity					
2019	**Within 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**No fixed maturity**	**Total**
Other liabilities	**79,207**	**55,268**	**3,653**	**--**	**--**	**138,128**
Borrowings	**217,099**	**568,542**	**1,447,045**	**--**	**--**	**2,232,686**
Total	**296,304**	**623,810**	**1,450,698**	**--**	**--**	**2,370,814**

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

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

	Fixed maturity				**No fixed maturity**	**Total**
2019	**Within 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**		
Assets						
Cash and cash equivalents	**--**	**--**	**--**	**--**	**7,876**	**7,876**
Investments	**--**	**11,029**	**--**	**--**	**893**	**11,922**
Murabaha receivables, net	**6,888**	**21,026**	**66,677**	**28,859**	**--**	**123,450**
Ijara receivables, net	**200,873**	**438,636**	**1,527,319**	**849,901**	**--**	**3,016,729**
Ijara Mawsofa Fi Athemmah receivables, net	**913**	**2,593**	**12,105**	**41,838**	**--**	**57,449**
Positive fair value of derivatives	**71**	**--**	**--**	**--**	**--**	**71**
Prepayments and other assets	**47,191**	**79,244**	**1,212**	**--**	**--**	**127,647**
Property and equipment	**1,468**	**4,403**	**25,398**	**15,142**	**13,650**	**60,061**
Total assets	**257,404**	**556,931**	**1,632,711**	**935,740**	**22,419**	**3,405,205**
Liabilities						
Account payables and other accruals	**84,056**	**60,119**	**3,654**	**--**	**-**	**147,829**
Negative fair value of derivatives	**--**	**--**	**3,621**	**--**	**--**	**3,621**
Zakat and income tax payable	**15,441**	**5,389**	**13,550**	**--**	**--**	**34,380**
Borrowings	**196,633**	**518,277**	**1,365,522**	**--**	**--**	**2,080,432**
Employees benefits	**--**	**--**	**--**	**--**	**13,666**	**13,666**
Total liabilities	**296,130**	**583,785**	**1,386,347**	**--**	**13,666**	**2,279,928**

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27 FINANCIAL RISK MANAGEMENT (CONTINUED)

	Fixed maturity				No fixed maturity	Total Restated
2018	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years		
Assets						
Cash and cash equivalents	--	--	--	--	15,965	15,965
Investments	--	- -	11,591	- -	893	12,484
Murabaha receivables, net	10,784	33,581	60,467	3,424	--	108,256
Ijara receivables, net	209,087	548,136	1,523,132	622,466	--	2,902,822
Ijara Mawsofa Fi Athemmah receivables, net	1,742	5,172	24,195	48,553	--	79,662
Positive fair value of derivatives	--	--	1,087	--	--	1,087
Prepayments and other assets	29,664	75,968	1,048	305	--	106,985
Investment in joint ventures	3,961	3,961	--	--	--	7,922
Property and equipment	480	1,440	9,534	2,734	13,650	27,838
Deferred tax asset	--	--	--	--	516	516
Total assets	255,718	668,258	1,631,054	677,482	31,024	3,263,536
Liabilities						
Account payables and other accruals	45,243	43,049	3,794	--	--	92,086
Zakat and income tax payable	--	3,249	--	--	33,541	36,790
Borrowings	231,004	578,732	1,184,396	--	--	1,994,132
Employees benefits	--	--	-	--	13,618	13,618
Total liabilities	276,247	625,030	1,188,190	--	47,159	2,136,626

28 FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial assets consist of cash and cash equivalents, investments, derivatives, Murabaha, Ijara, Ijara Mawsofa Fi Athemmah receivable and other receivable. Financial liabilities consist of borrowings, payables and derivatives.

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

		Fair value			
2019	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets:					
Murabaha receivables, net	**123,450**	**--**	**--**	**123,748**	**123,748**
Ijara receivables, net	**3,016,729**	**--**	**--**	**3,045,905**	**3,045,905**
Ijara mawsofa fi athemmah receivables, net	**57,449**	**--**	**--**	**63,692**	**63,692**
Investments	**11,922**	**--**	**--**	**11,922**	**11,922**
Positive fair value of derivatives	**71**	**--**	**--**	**71**	**71**
Financial liabilities:					
Negative fair value of derivatives	**3,621**	**--**	**--**	**3,621**	**3,621**

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28 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

2018	Carrying value	Fair value Level 1	Level 2	Level 3	Total
Financial assets:					
Murabaha receivables, net	108,256	--	--	109,757	109,757
Ijara receivables, net	2,902,822	--	--	2,900,387	2,900,387
Ijara Mawsofa Fi Athemmah receivables, net	79,662	--	--	79,662	79,662
Investments	12,484	--	--	12,484	12,484
Positive fair value of derivatives	1,087	--	-	1,087	1,087

The valuation of fixed rate Murabaha receivables, Ijara receivables and Ijara Mowsofa Fi Athemmah receivables are estimated using contractual cash flows discounted at latest yield, which is the contracted profit rate for recent transactions. Input into the discounted cash flow techniques includes recent yields and contractual cash flows.

Management assessed that the carrying amount of other financial instruments largely approximate fair value due to either short-term maturities or re-pricing of the special commission on those instruments and these financial instruments are classified as level 3.

There have been no transfers to and from any levels during the year.

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

	2019		2018	
	Total capital ratio %	**Tier I capital ratio %**	Total capital ratio %	Tier I capital ratio %
Capital adequacy ratio	**43.16**	**43.30**	44.46	44.43

30 COMMITMENTS AND CONTINGENCIES

Financing facilities approved but not utilised:
The Company has facilities approved but not utilised, indicative offers issued which are under consideration of the customers as of the reporting date which have the potential to convert into financing amounting to SR 218 million (31 December 2018: SR 96 million).

Zakat and income tax:
As at 31 December 2019, the Company has an outstanding guarantee of SR Nil (31 December 2018: SR 82.9 million) submitted in favour of GAZT for zakat and income tax appeal filed by the Company.

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30 COMMITMENTS AND CONTINGENCIES (CONTINUED)

VAT (notes 11 and 14):
During the year, the GAZT issued an assessment on VAT returns for the period from January 2018 to January 2019 and claimed an amount of SR 19.9 million. The differences mainly resulted due to transaction of buy and lease back and first housing deals made before issuance of mechanism by MOH and GAZT. Breakup of the claim is as follow:

Category	**Assessment received**
VAT variances	9,195
Wrong filing charge	3,486
Late payment Charge	7,250
Total	**19,931**

The Company paid SR 9.2 million in respect of VAT variances and issued a bank guarantee in respect of remaining amount. The Company has filed an appeal clarifying its position on the assessment received from GAZT. The appeal is still under review of GAZT. The Company believes it is unlikely that the above position of GAZT will be upheld; however, the Company recorded SR 6.07 million to cover the expected and potential claims up till 31 December 2019 as its best estimate of additional VAT liability.

Operating lease:

	2018
Maturity Analysis – Contractual undiscounted cash flows	
Less than one year	3,095
One to five years	14,598
More than five years	12,856
Total undiscounted operating lease as at 31 December	30,549

31 SEGMENT INFORMATION

The Company objective is to provide financing for real estate leases in the Kingdom of Saudi Arabia. All assets, liabilities and operations as reflected in the statement of financial position and statement of comprehensive income belongs to the real estate financing segment.

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

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

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

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

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31 SEGMENT INFORMATION (CONTINUED)

The Company's total assets and liabilities at 31 December 2019 and 2018 and its total operating income, expenses and net income for the years then ended are as follows:

	Retail	Corporate	Head office	Total
2019				
Income	**96,537**	**196,089**	**-**	**292,626**
Expenses	**64,516**	**126,051**	**-**	**190,567**
Segment profit / (loss)	**32,021**	**70,038**	**-**	**102,059**
Total assets	**1,014,165**	**2,323,031**	**68,009**	**3,405,205**
Total liabilities	**652,968**	**1,505,869**	**121,091**	**2,279,928**
2018				
Income	82,466	183,290	-	265,756
Expenses	56,410	111,733	-	168,143
Segment profit / (loss)	26,056	71,557	-	97,613
Total assets	990,895	2,227,236	44,889	3,263,020
Total liabilities	618,583	1,404,377	113,666	2,136,626

Below is the reconciliation of revenue and expenses from financial statements to operating segment note:

	For the year ended 31 December	
	2019	2018
Income		
Total income from Murabaha, Ijara and Ijara Mawsofa Fi Athemmah	**296,345**	267,084
Fee expenses	**(2,843)**	(1,582)
Other (loss) / income	**(562)**	226
Arrangement fee	**--**	268
Share in net (loss) / income from joint ventures	**(314)**	(240)
Total income – as per operating segment note.	**292,626**	265,756
Expenses		
Borrowing costs	**(93,767)**	(88,087)
Depreciation and write off	**(3,501)**	(3,044)
General and administrative expenses	**(78,404)**	(66,802)
Selling and marketing expenses	**(13,143)**	(8,208)
Impairment loss on property and equipment	**--**	(2,100)
Impairment charge for credit losses, net	**(1,752)**	98
Total expense – as per operating segment note.	**(190,567)**	(168,143)

(SR'000)

32 PROSPECTIVE CHANGE IN INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

- Amendments to References to Conceptual Framework in IFRS Standards
- Definition of Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Sale or Contribution of Assets between an Investor and its associate or Joint Venture (Amendments to IFRS 10 and IAS 28)
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)
- Insurance contracts (IFRS 17)

The Company does not anticipate that these will have a significant impact on the Company's financial statements.

33 COMPARATIVE INFORMATION

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

Statement of profit or loss	As disclosed previously	Current presentation	Adjustment
General and administrative expenses - salaries and employee related cost	49,184	45,923	(3,261)
Selling and marketing expenses – salaries and outsourcing cost	2,463	5,724	3,261

In the current year, the Company changed the reclassification of staff cost of sales personnel from general and administrative expenses to salaries and outsourcing cost. Accordingly financial statement caption of outsourcing cost has been changed to salaries and outsourcing cost.

34 SUBSEQUENT EVENT

There were no subsequent events after the statement of financial position date which require adjustments to/or disclosure in the financial statements.

35 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on 24 Jumada II 1441H (corresponding to 18 February 2020).

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

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Independent auditor's report

To the Board of Directors of Amlak International for Real Estate Finance Company (A Saudi Closed Joint Stock Company)

Opinion

We have audited the condensed interim financial statements of **Amlak International for Real Estate Finance Company** ("the Company"), which comprise the condensed interim statement of financial position as at 30 June 2019, the condensed interim statements of profit or loss, comprehensive income, changes in equity, cash flows for the period then ended, and the notes to the condensed interim financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying condensed interim financial statements present fairly, in all material respects, the financial position of the Company as at 30 June 2019, and its financial performance and its cash flows for the period then ended in accordance with the International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") as endorsed in the Kingdom of Saudi Arabia.

Basis for Opinion

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

Other Matter

The Company has prepared a separate set of condensed interim financial statements for the period ended 30 June 2019 in accordance with IAS 34 as endorsed in the Kingdom of Saudi Arabia, on which we issued a separate review report to the shareholders of the Company, dated 8 August 2019.

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

Management is responsible for the preparation and fair presentation of the condensed interim financial statements in accordance with the International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") as endorsed in the Kingdom of Saudi Arabia, the applicable requirements of the Regulations for Companies, the Company's By-Laws and for such internal control as management determines is necessary to enable the preparation of condensed interim financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the condensed interim financial statements, management are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors are responsible for overseeing the Company's financial reporting process.

Independent auditor's report

To the Board of Directors of Amlak International for Real Estate Finance Company (A Saudi Closed Joint Stock Company) (continued)

Auditor's Responsibilities for the Audit of the Condensed Interim Financial Statements

Our objectives are to obtain reasonable assurance about whether the condensed interim financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these condensed interim financial statements.

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the condensed interim financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditor's report to the related disclosures in the condensed interim financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the condensed interim financial statements, including the disclosures, and whether the condensed interim financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit of **Amlak International for Real Estate Finance Company** ("the Company").

For KPMG Al Fozan & Partners
Certified Public Accountants

KPMG Al Fozan & Partners
Certified Public Accountants

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Al Riyadh: 24 Dhul-Hijjah 1440H
Corresponding to: 25 August 2019

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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1. THE COMPANY AND THE NATURE OF OPERATIONS

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

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

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

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

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

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

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

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

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

2. BASIS OF PREPARATION (CONTINUED)

2.2 Basis of measurement

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

2.3 Functional and presentation currency

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

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

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

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

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

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

Accounting policy applicable on and after 1 January 2019:
On initial recognition at inception of the contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is identified if most of the benefits are flowing to the Company and the Company can direct the usage of such assets.

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

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

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

After the commencement date, Company measures the lease liability by:
1. Increasing the carrying amount to reflect interest on the lease liability.
2. Reducing the carrying amount to reflect the lease payments made and;
3. Re-measuring the carrying amount to reflect any re-assessment or lease modification.

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

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

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

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

RECONCILIATION OF LEASE LIABILITIES

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES

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

Change in the accounting for zakat and income tax:

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Below is the accounting policies on zakat and income tax:

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

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

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

IFRIC 23 Uncertainty over Income Tax Treatment:
The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

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

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

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

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

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

As at 31 December 2018:

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

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

As at 1 January 2018:

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

5. MURABAHA RECEIVABLES, NET

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

6. IJARA RECEIVABLES, NET

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

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

6.1 The maturity profile of Ijara receivables is as follows:

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

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6. IJARA RECEIVABLES, NET (CONTINUED)

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

7. IJARA MAWSOFA FI ATHEMMAH RECEIVABLES, NET

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

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

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

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

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

(SR '000)

8. INVESTMENTS IN JOINT VENTURES

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

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

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

Movement of investment in joint ventures is as follows:

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

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

(SR '000)

9. ACCOUNT PAYABLES AND OTHER ACCRUALS

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

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

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

10. ZAKAT AND INCOME TAX

10.1 Zakat and income tax assessment and status update

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

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

2007 to 2012

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

2013 to 2017

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

2018

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

2019

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

10. ZAKAT AND INCOME TAX (CONTINUED)

10.2 Deferred tax

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

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

11. BORROWINGS

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

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

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

12. DIVIDEND

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

13. SHARE CAPITAL

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

14. EARNINGS PER SHARE

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

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

(SR '000)

15. GENERAL AND ADMINISTRATIVE EXPENSES

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

16. SELLING AND MARKETING EXPENSES

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

(SR '000)

17. RELATED PARTY TRANSACTIONS AND BALANCES

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

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

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

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

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17. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

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

18. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

(SR '000)

18. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

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

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

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

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

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

19. CAPITAL ADEQUACY

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

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

20. COMMITMENTS AND CONTINGENCIES

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

(SR '000)

21. SEGMENT INFORMATION

The Company objective is to provide financing for real estate leases in the Kingdom of Saudi Arabia. All assets, liabilities and operations as reflected in the statement of financial position and statement of comprehensive income belongs to the real estate financing segment.

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

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

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

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

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

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

22. APPROVAL OF THE CONDENSED INTERIM FINANCIAL STATEMENTS

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

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

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

Opinion

We have audited the financial statements of **Amlak International for Real Estate Finance Company** ("the Company"), which comprise the statement of financial position as at 31 December 2018, the statements of profit or loss, comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax.

Basis for Opinion

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS as modified by SAMA for the accounting of zakat and income tax, the Regulations for Companies, and the Company's By-laws and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

KPMG

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. 'Reasonable assurance' is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit of **Amlak International for Real Estate Finance Company** ("the Company").

For KPMG Al Fozan & Partners
Certified Public Accountants

Khalil Ibrahim Al Sedais
License No.: 371

KPMG Al Fozan & Partners
Certified Public Accountants

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1 THE COMPANY AND THE NATURE OF OPERATIONS

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

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

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

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

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

2 BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements of the Company have been prepared:

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

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

2.2 Basis of measurement

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

2.3 Functional and presentation currency

These financial statements are presented in Saudi Arabian Riyals ("SR"), which is the Company's functional currency. Except as indicated, the financial information presented in SR has been rounded-off to the nearest thousand.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A CHANGE IN ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

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

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

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

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

(SR'000)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets and financial liabilities

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

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

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

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

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

iii) Impact on retained earnings and reserves

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B POLICIES APPLICABLE FROM 1 JANUARY 2018

Classification of financial assets

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

Financial asset at amortised cost

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

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

Financial asset at FVOCI

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

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

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

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

Financial asset at FVTPL

All other financial assets are classified as measured at FVTPL.

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Classification of financial assets (continued)

Business model assessment

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

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

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

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

Assessments whether contractual cash flows are solely payments of principal and profit

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Classification of financial liabilities

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

Derecognition

Financial assets

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

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

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

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

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

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

Financial liabilities

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

Modifications of financial assets and financial liabilities

Financial assets

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Modifications of financial assets and financial liabilities (continued)

Financial Liabilities

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

Impairment

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

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

No impairment loss is recognized on equity investments.

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

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition

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

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

Measurement of ECL

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

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

Restructured financial assets

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

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset; and
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition .This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective profit rate of the existing financial assets.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment (continued)

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

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

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

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

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

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income / expenses recognition

Income and expenses

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

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

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

Measurement of amortized cost and income

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

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C POLICIES APPLICABLE BEFORE ADOPTION OF IFRS 9

Cash and cash equivalents

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

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

Ijara receivables
Ijara receivables represent assets transferred under finance lease under Islamic lease agreement and the present value of the lease payments is recognised as a receivable and disclosed under "Ijara receivables". The difference between the gross receivables and the present value of the receivables is recognised as unearned Ijara income. Ijara income is recognised over the term of the Ijara using the net investment method, which reflects a constant periodic rate of return.

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets

A financial asset or group of financial assets is classified as impaired when there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of a financial asset or a group of financial assets and that a loss event(s) has an impact on the future cash flows of financial asset or a group of financial assets that can be estimated reliably.

Objective evidence that financial assets are impaired includes:

- significant financial difficulty of the borrower;
- default or delinquency by a borrower;
- restructuring of Ijara receivables by the Company on terms that the Company would not consider otherwise;
- indications that a borrower will enter bankruptcy; or
- observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired at the statement of financial position date. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised for changes in its carrying amounts.

Once a financial asset has been written down to its estimated recoverable amount, income is thereafter recognised based on the rate of income that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

In addition, for an investment in an equity security, a significant or prolonged decline" in its fair value below its cost is objective evidence of impairment. In general, the Company considers a decline of 20% to be 'significant' and a period of nine months to be 'prolonged'. However, in specific circumstances a smaller decline or a shorter period may be appropriate.

When a financial asset is uncollectible, it is written off against the related impairment allowance for credit losses either directly by a charge to statement of profit or loss or through provision for impairment account. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted, and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the borrower's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of profit or loss in impairment charge for credit losses.

Investment in joint ventures

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment in value. The cost less estimated residual value of property and equipment is depreciated on a straight line basis over the estimated useful lives of the assets.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

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

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

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

Accrued expenses and other current liabilities

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

Provisions

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

Financial liability

Initial recognition and measurement

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial liability

A financial liability (or a part of a financial liability) can only be derecognised when it is extinguished, that is when the obligation specified in the contract is either discharged, cancelled or expires.

Offsetting of financial instruments

Financial assets and liabilities are offset and reported net in the statement of financial position when the entity has a legal currently enforceable right to set off the recognised amounts and when the Company intends to settle on a net basis, or to realise the asset and settle the liability simultaneously. Income and expenses are not offset in the statement of profit or loss unless required or permitted by an accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Company.

Derivative financial instruments and hedge accounting

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

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

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

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

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

Zakat and income tax

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employees' terminal benefits

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

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

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

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

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

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

Expenses

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

Fee and commission income and expense

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

Borrowing costs

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

Operating leases – where the Company acts as lessee

Operating lease payments are recognised as expenses in the statement of profit or loss on a straight-line method basis over the lease contract period.

Statutory reserve

As required by Saudi Arabian Regulations for Companies and the Company's By-laws, 10% of the income for the year (after zakat and after deducting losses brought forward) should be transferred to the statutory reserve. This reserve is not available for distribution. As per the By-laws, the Company may resolve to discontinue such transfers when the reserve totals 30% of the capital.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement

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

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

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

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

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

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

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

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

- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

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

Segment reporting

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

Other real estate asset

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

D CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

i. Impairment of financial assets

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

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

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

(SR'000)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

iv. *End of service benefits – refer note 16*

4 CASH AND CASH EQUIVALENTS

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

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

5 INVESTMENTS AT FVOCI / AFS

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

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

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

(SR'000)

6 MURABAHA RECEIVABLES, NET

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

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

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

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

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

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

6.3 The table below stratifies credit exposures from Murabaha receivables into ranges of receivable to value ratio. Murabaha receivable to value ratio is calculated by dividing the gross amount of the financing to fair value of the underlying property. The gross amount of financing used in calculating this ratio exclude any impairment allowance.

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

(SR'000)

7 IJARA RECEIVABLES, NET

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

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

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

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

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

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

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

(SR'000)

7 IJARA RECEIVABLES, NET (CONTINUED)

7.3 The table below stratifies credit exposures from Ijara receivables into ranges of receivable to value ratio. Ijara receivable to value ratio is calculated by dividing the gross amount of the financing to fair value of the underlying property. The gross amount of financing used in calculating this ratio excludes unearned income and any impairment allowance.

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

8 IJARA MAWSOFA FI ATHEMMAH RECEIVABLES, NET

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

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

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

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

(SR'000)

8 IJARA MAWSOFA FI ATHEMMAH RECEIVABLES, NET (CONTINUED)

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

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

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

8.3 The table below stratifies credit exposures from Ijara Mawsofa Fi Athemmah receivables into ranges of receivable to value ratio. Ijara Mawsofa Fi Athemmah receivables to value ratio is calculated by dividing the gross amount of the financing to fair value of the underlying property. The gross amount of financing used in calculating this ratio excludes unearned income and any impairment allowance.

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

(SR'000)

9 PREPAYMENTS AND OTHER ASSETS

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

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

10 INVESTMENTS IN JOINT VENTURES

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

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

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

(SR'000)

10 INVESTMENTS IN JOINT VENTURES (CONTINUED)

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

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

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

(SR'000)

10 INVESTMENTS IN JOINT VENTURES (CONTINUED)

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

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

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

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11 PROPERTY AND EQUIPMENT, NET

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

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

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

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

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11 PROPERTY AND EQUIPMENT NET (CONTINUED)

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

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

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12 ACCRUED EXPENSES AND OTHER LIABILITIES

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

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

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

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

13 DERIVATIVES

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

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

14 ZAKAT AND INCOME TAX

a) Charge for the year

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

(SR'000)

14 ZAKAT AND INCOME TAX (CONTINUED)

b) Zakat

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

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

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

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

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

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

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

c) Income tax

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

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

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

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

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14 ZAKAT AND INCOME TAX (CONTINUED)

d) Zakat and income tax assessment status

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

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

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

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

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

15 BANK BORROWINGS

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

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

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

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

(SR'000)

16 EMPLOYEE BENEFITS

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

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

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

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

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

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

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

d) Principal actuarial assumptions:

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

e) Sensitivity analysis

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

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

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

17 SHARE CAPITAL

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

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

18 STATUTORY RESERVE

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

19 DIVIDENDS

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

20 EARNINGS PER SHARE

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

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

21 GENERAL AND ADMINISTRATIVE EXPENSES

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

22 SELLING AND MARKETING EXPENSES

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

(SR'000)

23 RELATED PARTY TRANSACTIONS AND BALANCES

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

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

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

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

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

24 FINANCIAL RISK MANAGEMENT

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

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

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

1) Credit risk

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

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

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

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

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

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

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24 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

a) Credit quality analysis

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

2018:

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

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

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

2017:

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

24 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

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

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

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

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

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

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

i) Credit risk grades

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

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

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

24 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

ii) Generating the term structure of PD

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

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

iii) Determining whether credit risk has increased significantly

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

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

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

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

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

The Company monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default; and
- the criteria do not align with the point in time when an asset becomes 30 days past due;

24 FINANCIAL RISK MANAGEMENT (CONTINUED)

iv) Modified financial assets

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

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

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

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

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

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

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

v) Incorporation of forward looking information

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

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

(SR'000)

24 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

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

vi) Definition of 'Default'

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

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

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

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

vii) Measurement of ECL

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

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

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

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

(SR'000)

24 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

c. Loss allowance

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

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

(SR'000)

24 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

d. Collateral

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

2) Market rate risk

a) Profit rate risk

Profit rate risk is the uncertainty of future earnings resulting from fluctuations in profit rates. The risk arises when there is a mismatch in the assets and liabilities which are subject to profit rate adjustment within a specified period. The most important source of such rate risk is the Company's borrowings and financing activities, where fluctuations in profit rates, if any, are reflected in the results of operations.

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

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

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

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24 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

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

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

(SR'000)

24 FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Currency risk

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

3) Liquidity risk

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

a) Analysis of financial liabilities by remaining contractual maturities

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

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

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

(SR'000)

24 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

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24 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

(SR'000)

25 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

		Fair value			
2018	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets:					
Murabaha receivables, net	**113,466**	**-**	**-**	**93,917**	**93,917**
Investments at FVOCI	**12,484**	**-**	**-**	**12,484**	**12,484**
Positive fair value of derivatives	**1,087**	**-**	**1,087**	**-**	**1,087**

		Fair value			
2017	Carrying value	Level 1	Level 2	Level 3	Total
Financial assets:					
Murabaha receivables, net	263,522	-	-	224,611	224,611
Available-for-sale investment	12,887	-	-	12,887	12,887
Positive fair value of derivatives	1,046	-	1,046	-	1,046
Financial liabilities:					
Negative fair value of derivatives	666	-	666	-	666

The valuation of Murabaha Receivables is estimated using contractual cash flows discounted at latest variable yield, which is the contracted profit rate for recent transactions. Input into the discounted cash flow techniques includes Saudi Inter Bank Offer rates (SIBOR), contractual cash flows and primary origination spreads.

The fair value of Ijara receivables, Ijara Mawsofa Fi Athemmah receivables and bank borrowings, is approximate to carrying amount as the entire financing portfolio and borrowings are floating rate and have classified as level 3.

There have been no transfers to and from Level 3 during the year.

26 CAPITAL ADEQUACY

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain a strong capital base. Capital adequacy ratios as monitored and measured by the management below measure capital adequacy by comparing the Company's eligible capital with its statement of financial position, commitments and notional amount of derivatives, if any, at a weighted amount determined by management to reflect their relative risk.

	2018		2017	
	Total capital ratio %	**Tier I capital ratio %**	Total capital ratio %	Tier I capital ratio %
Capital adequacy ratio	**44.46**	**44.43**	44.02	43.97

(SR'000)

27 COMMITMENTS AND CONTINGENCIES

The Company has facilities approved but not utilised, indicative offers issued which are under consideration of the customers as of the reporting date which have the potential to convert into financing amounting to SR 96 million (31 December 2017: SR 287 million).

The Company has outstanding guarantee of SR 82.9 million (31 December 2017: SR 82.9 million) submitted in favour of GAZT for appeal filled by the Company.

The Company is committed to investment in joint ventures of nil amount (31 December 2017: SR 5.2 million).

The future minimum lease payments under non-cancellable operating leases where the Company is the lessee are as follows:

	2018	2017
Within 1 year	**3,095**	659
After 1 year, but not more than 5 years	**14,598**	909
More than 5 years	**12,856**	-
	30,549	1,568

28 SEGMENT INFORMATION

The Company objective is to provide financing for real estate leases in the Kingdom of Saudi Arabia. All assets, liabilities and operations as reflected in the statement of financial position and statement of comprehensive income belongs to the real estate financing segment.

For management purposes, the Company is organised into the following primary business segments:

Retail
These represents finance products granted to small and medium sized businesses and individuals.

Corporate
These represents financing products granted to corporate, high net worth individuals and institutional customers. Investments in joint ventures are managed by the Corporate segment.

Head office
Head office is responsible for managing the surplus liquidity of the Company through short term market placements. It also provides support services to the business functions.

The Company's total assets and liabilities at 31 December 2018 and 2017 and its total operating income, expenses and net income for the years then ended are as follows:

(SR'000)

28 SEGMENT INFORMATION (CONTINUED)

	Retail	Corporate	Head office	Total
2018				
Revenue	**82,466**	**183,290**	**-**	**265,756**
Expenses	**56,410**	**111,733**	**-**	**168,143**
Segment profit / (loss)	**26,056**	**71,557**	**-**	**97,613**
Total assets	**990,895**	**2,227,236**	**44,889**	**3,263,020**
Total liabilities	**618,583**	**1,404,377**	**113,666**	**2,136,626**
2017				
Revenue	85,584	189,819	-	275,403
Expenses	56,991	115,158	-	172,149
Segment profit / (loss)	28,593	74,661	-	103,254
Total assets	997,182	2,276,319	59,579	3,327,080
Total liabilities	628,086	1,479,982	49,716	2,157,784

29 PROSPECTIVE CHANGE IN INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Company has chosen not to early adopt the following new standards which have been issued but not yet effective for the Company's accounting years beginning on or after 1 January 2019.

Following is a brief on the new IFRS and amendments to IFRS, effective for annual periods beginning on or after 1 January 2019:

i) IFRS 16 – "Leases", applicable for the period beginning on or after 1 January 2019. The new standard eliminates the current dual accounting model for lessees under IAS 17, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, IFRS 16 proposes on-balance sheet accounting model.

   Transition to IFRS 16
   The Company plans to adopt IFRS 16 on modified retrospective basis. The Company elects to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Company will, therefore, not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

   The Company will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Company has leases of certain office equipment (i.e. photocopying machines) that are considered of low value.

   During 2018, the Company has performed a detailed impact assessment of IFRS 16. In summary the impact of IFRS 16 adoption is expected to be, as follows:

   In the statement of financial position, the assets will increase by around SR 3.2 million; whereas, liabilities will increase by SR 3.5 million.

29 PROSPECTIVE CHANGE IN INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

ii) Amendments to IAS 19: Plan Amendment, Curtailment or Settlement, applicable for the period beginning on or after 1 January 2019. The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period.

For other standards, amendments or interpretations effective for annual periods beginning on or after 1 January 2019, the Company does not anticipate that these will have a material impact on the Company's financial statements.

30 COMPARATIVE INFORMATION

The presentation and classification of the following items in these financial statements are amended to ensure comparability with the current year.

1) Processing and appraisal fee income and expense have been shown on gross basis in fee and commission income and fee expense caption.

2) Depreciation has been shown separately from general and administrative expenses.

3) Operating segment note has been updated to bring into conformity with internal reporting basis of current year. This change was due to reporting of certain customers in corporate segment rather than retail. Furthermore, head office expense has been allocated to the two segments.

31 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on 5 Jumada'II 1440H Company (corresponding to 10 February 2019).

AMLAK INTERNATIONAL FOR
REAL ESTATE FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
FINANCIAL STATEMENTS
For the year ended 31 December 2017
together with the
INDEPENDENT AUDITORS' REPORT

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License No. 46/11/323 issued 11/3/1992

Independent auditors' report

To the Shareholders of
Amlak International for Real Estate Finance Company
(A Saudi Closed Joint Stock Company)

Opinion

We have audited the financial statements of **Amlak International for Real Estate Finance Company** ("the Company"), which comprise the statement of financial position as at 31 December 2017, the statements of profit or loss, comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS as modified by SAMA for the accounting of zakat and income tax, the Regulations for Companies, and the Company's By-Laws and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

KPMG

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. 'Reasonable assurance' is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit of **Amlak International for Real Estate Finance Company** ("the Company").

For KPMG Al Fozan & Partners
Certified Public Accountants

KPMG
Certified Public Accountants
KPMG Al Fozan & Partners

Khalil Ibrahim Al Sedais
License No: 371

Riyadh on 11 Jumada'II 1439H
Corresponding to: 27 February 2018

AMLAK INTERNATIONAL FOR REAL ESTATE FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF FINANCIAL POSITION
As at 31 December 2017
(SR '000)

	Notes	**31 December 2017**	31 December 2016 (Restated)
ASSETS			
Cash and cash equivalents	*4*	**29,634**	9,347
Available-for-sale investment	*5*	**12,887**	10,988
Murabaha receivables, net	*6*	**260,749**	432,042
Ijara receivables, net	*7*	**2,744,421**	2,537,413
Ijara mawsofa fi athemmah receivables, net	*8*	**116,696**	120,218
Positive fair value of derivatives	*13*	**1,046**	2,582
Prepayments and other assets	*9*	**103,218**	34,921
Investment in joint ventures	*10*	**29,530**	112,824
Property and equipment, net	*11*	**28,899**	29,182
TOTAL ASSETS		**3,327,080**	3,289,517
LIABILITIES AND SHAREHOLDERS' EQUITY			
Accrued expenses and other liabilities	*12*	**68,312**	40,392
Negative fair value of derivatives	*13*	**666**	746
Zakat and income tax payable	*14*	**3,722**	4,003
Bank borrowings	*15*	**2,072,175**	2,102,270
Employee benefits	*16*	**12,909**	8,834
TOTAL LIABILITIES		**2,157,784**	2,156,245
Share capital	*17*	**903,000**	900,000
Statutory reserve	*18*	**51,654**	41,329
Unrealized gain/(loss) on available-for-sale investment	*5*	**887**	(1,012)
Cash flow hedge reserve	*13*	**380**	1,836
Retained earnings		**213,375**	191,119
Total shareholders' equity		**1,169,296**	1,133,272
Total liabilities and shareholders' equity		**3,327,080**	3,289,517

The attached notes 1 to 32 form an integral part of these financial statements.

AMLAK INTERNATIONAL FOR REAL ESTATE FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2017
(SR '000)

	Notes	2017	2016 (Restated)
INCOME			
Income from Murabaha contracts		**29,759**	39,085
Income from Ijara contracts		**224,139**	210,994
Income from Ijara mawsofa fi athemmah contracts		**7,646**	7,262
Processing and appraisal fees, net		**4,448**	3,046
Income from ijara, murabaha And ijara mawsofa fi athemah		**265,992**	260,387
Borrowing facility cost and charges	*15*	**(91,755)**	(81,809)
Net income from ijara, murabaha And ijara mawsofa fi athemah		**174,237**	178,578
Other operating income			
Share in net income from joint ventures	*10*	**8,911**	12,797
Arrangement fees		**500**	530
Gain on portfolio sales		**-**	133
		183,648	192,038
Operating expenses			
General and administrative expenses	*21*	**(67,100)**	(64,627)
Selling and marketing expenses	*22*	**(8,955)**	(8,920)
Impairment loss on property and equipment	*11*	**(2,905)**	-
Impairment allowance for credit losses, net	*6,7 & 8*	**(1,434)**	(9,451)
Profit for the year		**103,254**	109,040
Basic and diluted earnings per share (SR)	*20*	**1.14**	1.21

The attached notes 1 to 32 form an integral part of these financial statements.

AMLAK INTERNATIONAL FOR REAL ESTATE FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2017
(SR '000)

	Notes	2017	2016 (Restated)
Profit for the year		**103,254**	109,040
Other comprehensive income / (loss):			
Items that are or may be reclassified subsequently to profit or loss:			
Net movement in cash flow hedges		**(1,456)**	(614)
Available-for-sale investments-net change in fair value	*5*	**1,899**	(324)
Items not to be reclassified subsequently to profit or loss:			
Remeasurement gain on employee benefits	*16*	**268**	-
Other comprehensive income / (loss) for the year		**711**	(938)
Total comprehensive income for the year		**103,965**	108,102

The attached notes 1 to 32 form an integral part of these financial statements.

AMLAK INTERNATIONAL FOR REAL ESTATE FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended 31 December 2017
(SR '000)

	Share Capital	Statutory reserve	Unrealized gain/(loss) on available-for-sale investment	Cash flow hedge reserve	Retained earnings	Total
For the year ended 31 December 2017						
Balance at 31 December 2016 – as previously reported	**900,000**	**41,329**	**(1,012)**	**1,836**	**193,035**	**1,135,188**
Effect of restatement (note 30)	**-**	**-**	**-**	**-**	**(1,916)**	**(1,916)**
Balance at 31 December 2016 – restated	**900,000**	**41,329**	**(1,012)**	**1,836**	**191,119**	**1,133,272**
Profit for the year	**-**	**-**	**-**	**-**	**103,254**	**103,254**
Other comprehensive income / (loss)	**-**	**-**	**1,899**	**(1,456)**	**268**	**711**
Total comprehensive income	**-**	**-**	**1,899**	**(1,456)**	**103,522**	**103,965**
Zakat for the year (note 14)	**-**	**-**	**-**	**-**	**(2,717)**	**(2,717)**
Income tax for the year (note 14)	**-**	**-**	**-**	**-**	**(724)**	**(724)**
Transfer to statutory reserve (note 18)	**-**	**10,325**	**-**	**-**	**(10,325)**	**-**
Dividend paid (note 19)	**-**	**-**	**-**	**-**	**(67,500)**	**(67,500)**
Increase in share capital (note 17)	**3,000**	**-**	**-**	**-**	**-**	**3,000**
Balance at 31 December 2017	**903,000**	**51,654**	**887**	**380**	**213,375**	**1,169,296**
For the year ended 31 December 2016						
Balance at 31 December 2015 – as previously reported	900,000	30,754	(688)	2,450	165,363	1,097,879
Effect of restatement (note 30)	-	-	-	-	(1,503)	(1,503)
Balance at 31 December 2015 – restated	900,000	30,754	(688)	2,450	163,860	1,096,376
Profit for the year as previously reported	-	-	-	-	105,747	105,747
Effect of restatement (note 30)	-	-	-	-	3,293	3,293
Profit for the year - restated	-	-	-	-	109,040	109,040
Other comprehensive (loss)	-	-	(324)	(614)	-	(938)
Total comprehensive (loss) / income	-	-	(324)	(614)	109,040	108,102
Zakat for the year (note 14)	-	-	-	-	(2,926)	(2,926)
Income tax for the year (note 14)	-	-	-	-	(780)	(780)
Dividend paid (note 19)	-	-	-	-	(67,500)	(67,500)
Transfer to statutory reserve (note 18)	-	10,575	-	-	(10,575)	-
Balance at 31 December 2016 restated	900,000	41,329	(1,012)	1,836	191,119	1,133,272

The attached notes 1 to 32 form an integral part of these financial statements.

AMLAK INTERNATIONAL FOR REAL ESTATE FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF CASH FLOWS
For the year ended 31 December 2017
(SR '000)

	Notes	**2017**	2016
Cash flows from operating activities:			
Profit for the year		**103,254**	109,040
Non-cash adjustment to reconcile profit for the period to net cash used in operating activities			
Depreciation	*11*	**2,054**	2,030
Impairment loss on property and equipment	*11*	**2,905**	-
Borrowing facility cost and charges	*15*	**91,755**	81,809
Employees benefits	*16*	**4,509**	1,583
Impairment allowances for credit losses		**1,434**	9,422
Share of net income from joint ventures	*10*	**(8,911)**	(12,797)
		197,000	191,087
Decrease / (increase) in operating assets			
Murabaha receivables		**175,694**	(17,789)
Ijara receivables		**(213,461)**	(259,414)
Ijara mawsofa fi athemmah receivables		**4,140**	(9,695)
Prepayments and other assets		**(68,297)**	18,409
Increase / (decrease) in operating liabilities			
Accrued expenses and other liabilities		**30,920**	(18,814)
Cash from / (used in) operations		**125,996**	(96,216)
Borrowing facility cost and charges paid	*15*	**(93,019)**	(77,414)
Employee benefits paid	*16*	**(166)**	(588)
Zakat and income tax paid	*14*	**(3,722)**	(3,501)
Net cash from / (used in) operating activities		**29,089**	(177,719)
Cash flows from investing activities			
Purchase of property and equipment	*11*	**(4,676)**	(4,064)
Proceeds from withdrawals of investment in joint ventures	*10*	**144,435**	63,156
Investments in joint ventures	*10*	**(52,230)**	(51,986)
Net cash from investing activities		**87,529**	7,106
Cash flows from financing activities			
Repayment against bank borrowings	*15*	**(846,331)**	(992,586)
Proceeds from bank borrowings	*15*	**817,500**	1,229,700
Dividends paid	*19*	**(67,500)**	(67,500)
Net cash (used in) / from financing activities		**(96,331)**	169,614
Net increase/ (decrease) in cash and cash equivalents		**20,287**	(999)
Cash and cash equivalents at beginning of the year	*4*	**9,347**	10,346
Cash and cash equivalents at end of the year	*4*	**29,634**	9,347
Non-cash supplemental information:			
Available-for-sale investment- net change in fair value		**1,899**	(324)
Net movement in cash flow hedges		**(1,456)**	(614)

The attached notes 1 to 32 form an integral part of these financial statements

1 THE COMPANY AND THE NATURE OF OPERATIONS

Amlak International for Real Estate Finance Company ("Amlak", the "Company") is a Saudi Closed Joint Stock Company established and registered in the Kingdom of Saudi Arabia under commercial registration number 1010234356 in Riyadh dated 25 Jumada Awal 1428H (corresponding to 11 June 2007).

As per the revised commercial registration certificate of the Company dated 11 Ramadan 1435H (corresponding to 8 July 2014), the objectives of the Company are to provide real estate finance as per Saudi Arabian Monetary Authority ("SAMA") license dated 21 Safar 1435H (corresponding to 24 December 2013). As part of the new mortgage regulations, the Company is in the process of exiting from the investment related business.

The registered office of the Company is located at King Saud Road, Riyadh, Kingdom of Saudi Arabia. The Company has the following branches:

Branch Commercial Registration Number	Date	Location
2050057816	30/12/1428	Khobar
4030171680	24/07/1428	Jeddah

2 BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements of the Company have been prepared:

a) in accordance with 'International Financial Reporting Standards (IFRS) as modified by the SAMA for the accounting of zakat and income tax', which requires, adoption of all IFRSs as issued by the International Accounting Standards Board ("IASB") except for the application of International Accounting Standard (IAS) 12 - "Income Taxes" and IFRIC 21 - "Levies" so far as these relate to zakat and income tax. As per the SAMA Circular no. 381000074519 dated 11 April 2017 and subsequent amendments through certain clarifications relating to the accounting for zakat and income tax ("SAMA Circular"), the Zakat and Income tax are to be accrued on a quarterly basis through shareholders equity under retained earnings; and

b) in compliance with the provisions of the Regulations for Companies in the Kingdom of Saudi Arabia and the By-laws of the Company.

Refer note 3 for the accounting policy of zakat and income tax and note 30 for the impact of change in the accounting policy resulting from the SAMA Circular.

2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention except for the measurement at fair value of available-for-sale investments and derivatives.

2.3 Functional and presentation currency

These financial statements are presented in Saudi Arabian Riyals ("SR"), which is the Company's functional currency. Except as indicated, the financial information presented in SR has been rounded-off to the nearest thousand.

2 BASIS OF PREPARATION (CONTINUED)

2.4 Critical accounting judgments, estimates and assumptions

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting judgments, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Such judgments, estimates, and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. Significant areas where management has used judgments, estimates and assumptions are as follows:

i. *Impairment of financial assets*

The Company exercises judgment to consider at each reporting date whether there is an objective evidence of impairment on any financial assets or a group of financial assets. This objective evidence of impairment is based on the results of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated.

Impairment of available-for-sale equity investment includes determination of a significant or prolonged decline in the fair value below its cost. Impairment losses are recognised in the statement of profit or loss as impairment loss on available-for-sale investment.

Evidence for impairment of Murabaha receivables, Ijara receivables and Ijara Mawsofa Fi Athemmah receivables may include indications that a borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganization, default or delinquency in profit or principal payments.

The Company reviews its financial assets portfolio to assess specific and collective impairment on a quarterly basis. In determining whether an impairment loss should be recorded, the Company uses objective evidence and estimates in making judgments as to impairment in determining whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. This evidence may include observable data indicating that there has been an adverse change in the payment status of the counter-party. Impairment allowance for credit losses is based on management assessment as to whether there is objective evidence that a financial asset may be impaired. If such evidence exists, the estimated recoverable amount is determined and any impairment loss is recognised in the statement of profit or loss.

ii. *Fair value measurement*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

2 BASIS OF PREPARATION (CONTINUED)

2.4 Critical accounting judgments, estimates and assumptions (continued)

ii. Fair value measurement (continued)

The principal or the most advantageous market must be accessible to by the Company. The fair value of an asset or a liability is measured using assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. The fair value of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities

- Level 2 — Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

- Level 3 — inputs for the asset or liability that are not based on observable market data (unobservable inputs).

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

At each reporting date, management of the Company analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Company's accounting policies. For this analysis, the management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities based on the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

iii. Going concern

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Additionally, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements have been prepared on a going concern basis.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies adopted in the preparation of these financial statements. The policies adopted in the preparation of these financial statements are consistent with those followed in the preparation of previous year financial statements, except for:

- Change in accounting policy in relation to accounting for zakat and income tax. As described in note 2, the Company amended its accounting policy in relation to zakat and income tax effective 1 January 2017. Previously, deferred tax asset / liability was recorded in relation to temporary deductible / taxable differences, which is not required under the SAMA Circular no. 381000074519 issued in April 2017 for the accounting of zakat and income tax. The effects of the new zakat and income tax accounting policy is accounted in the financial statements retrospectively (See note 30).

Cash and cash equivalents

Cash and cash equivalents consist of bank balances and cash in hand.

Murabaha receivables

Murabaha is an agreement whereby the Company sells to a customer an asset, which the Company has purchased and acquired based on a promise received from the customer to buy. The selling price comprises the cost plus an agreed profit margin. Gross amounts due under the Murabaha sale contracts include the total of future sale payments on the Murabaha agreement (Murabaha sale contract receivable). The difference between the Murabaha sale contracts receivable and the cost of the sold asset, is recorded as unearned Murabaha profit and for presentation purposes, is deducted from the gross amounts due under the Murabaha sale contracts receivable.

Ijara receivables

Ijara receivables represent assets transferred under finance lease under Islamic lease agreement and the present value of the lease payments is recognised as a receivable and disclosed under “Ijara receivables”. The difference between the gross receivables and the present value of the receivables is recognised as unearned Ijara income. Ijara income is recognised over the term of the Ijara using the net investment method, which reflects a constant periodic rate of return.

Ijara mawsofa fi athemmah

Ijara mawsofa fi athemmah is an agreement where in gross amounts due under originated Ijara mawsofa fi athemmah includes the total of future lease payments on Ijara mawsofa fi athemmah (lease contracts receivable), plus estimated residual amounts receivable. The difference between the lease contracts receivable and the cost of the leased assets is recorded as unearned Ijara mawsofa fi athemmah income and for presentation purposes, is deducted from the gross amounts due under Ijara mawsofa fi athemmah. Ijara mawsofa fi athemma income is recognised over the term of the loan using the net investment method, which reflects a constant periodic rate of return.

Available-for-sale investment

Available-for-sale (“AFS”) investments are non-derivative investments that are designated as AFS or not classified as another category of financial assets.

Unrealised gains or losses on revaluation of these investments are credited or charged to the statement of changes in shareholders’ equity though the statement of other comprehensive income. Any significant or prolonged decline in the value of available-for-sale investments is charged to the statement of profit or loss.

When the investment is sold the gain or loss accumulated in equity is reclassified to profit or loss.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets

A financial asset or group of financial assets is classified as impaired when there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of a financial asset or a group of financial assets and that a loss event(s) has an impact on the future cash flows of financial asset or a group of financial assets that can be estimated reliably.

Objective evidence that financial assets are impaired includes:

- significant financial difficulty of the borrower;
- default or delinquency by a borrower;
- restructuring of Ijara receivables by the Company on terms that the Company would not consider otherwise;
- indications that a borrower will enter bankruptcy; or
- observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired at the statement of financial position date. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised for changes in its carrying amounts.

Once a financial asset has been written down to its estimated recoverable amount, income is thereafter recognised based on the rate of income that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

In addition, for an investment in an equity security, a significant or prolonged decline" in its fair value below its cost is objective evidence of impairment. In general, the Company considers a decline of 20% to be 'significant' and a period of nine months to be 'prolonged'. However, in specific circumstances a smaller decline or a shorter period may be appropriate.

When a financial asset is uncollectible, it is written off against the related impairment allowance for credit losses either directly by a charge to statement of profit or loss or through provision for impairment account. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted, and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the borrower’s credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of profit or loss in impairment charge for credit losses.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset) is derecognised when:

- The rights to receive cash flows from the asset have expired;
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
    - the Company has transferred substantially all the risks and rewards of the asset, or
    - the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Investment in joint ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Company's investments in joint venture are accounted for using the equity method.

The Company's share of its JVs' post-acquisition income or losses is recognised in the statement of profit or loss. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Company's share of losses in a JV equals or exceeds its interest in the JV, including any other unsecured receivables, the Company does not recognise further losses, unless it has incurred obligations or made payments on behalf of the JV. Unrealised gains on transactions between the Company and its JVs are eliminated to the extent of the Company's interest in the JVs. Unrealised losses are also eliminated in the same way as unrealized gains unless the transaction provides evidence of an impairment of the asset transferred.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment in value. The cost less estimated residual value of property and equipment is depreciated on a straight line basis over the estimated useful lives of the assets.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Leasehold improvements are amortised on a straight-line basis over the shorter of the useful life of the improvement/assets or the term of the lease. Expenditure for repair and maintenance are charged to income. Improvements that increase the value or materially extend the life of the related assets are capitalised.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The estimated useful lives of the principal classes of assets are as follows:

	Years
Leasehold Improvements	Shorter of 10 years or lease term
Furniture and fixtures	6
Office equipment	5
Information technology equipment	3 to 5 years

Accrued expenses and other current liabilities

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Provisions

Provisions are recognised when the Company has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and can be measured reliably.

Financial liability

Initial recognition and measurement

The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value. The Company's financial liabilities include trade and other payables, bank borrowings, financial guarantee contracts, and derivative financial instruments.

Gains & losses are recognized in the statement of profit or loss when the liabilities are derecognized.

Derecognition of financial liability

A financial liability (or a part of a financial liability) can only be derecognised when it is extinguished, that is when the obligation specified in the contract is either discharged, cancelled or expires.

Offsetting of financial instruments

Financial assets and liabilities are offset and reported net in the statement of financial position when the entity has a legal currently enforceable right to set off the recognised amounts and when the Company intends to settle on a net basis, or to realise the asset and settle the liability simultaneously. Income and expenses are not offset in the statement of profit or loss unless required or permitted by an accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Company.

Derivative financial instruments and hedge accounting

The Company uses derivative financial instruments to hedge its exposure to commission rate. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from the changes in the fair value of derivatives are taken directly to the statement of profit or loss, except for the effective portion of cash flow hedges, which is recognised in equity.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been and are expected to be highly effective throughout the financial reporting periods for which they were / are designated.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, for forecast transactions, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to statement of profit or loss for the period.

Zakat and income tax

The Company's Saudi shareholders are subject to Zakat and non-Saudi / GCC shareholders are subject to income tax in accordance with the regulations of the General Authority of Zakat and Tax (the "GAZT") as applicable in the Kingdom of Saudi Arabia. Effective 1 January 2017 in line with SAMA circulate, the Company amended its accounting policy relating to zakat and income tax and has started to recognize zakat and income tax charge to retained earnings. Previously, zakat and income tax was charged to the statement of profit or loss.

Employees' terminal benefits

The Company operates a defined benefit plan for employees in accordance with Saudi Labor Law as defined by the conditions stated in the laws of the Kingdom of Saudi Arabia. The cost of providing the benefits under the defined benefit plan is determined using the projected unit credit method.

Remeasurements for actuarial gains and losses are recognised immediately in the statement of financial position with a corresponding credit to retained earnings through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service cost are recognised in profit or loss on the earlier of:
- The date of the plan amendment or curtailment, and
- The date the Company recognises related restructuring costs

Interest cost is calculated by applying the discount rate to the net defined benefit liability. The Company recognises the following changes in the net defined benefit obligation in the statement of income of profit or loss:
- Service costs comprising current service costs, past service costs, gains and losses on curtailments and non routine-settlements (under general and administrative expenses)
- Net special commission expense or income (under borrowing facility cost and charges)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Expenses

Selling and marketing expenses are those that specifically relate to salesmen and marketing expenses. All other expenses are classified as general and administrative expenses.

Processing and appraisal fee

Appraisal fees for services rendered are recognised when the service is provided. Processing fees received upfront are recognised over the financing period as a part of the effective yield on financial assets.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of profit and other costs that an entity incurs in connection with the borrowing of funds.

Operating leases

Operating lease payments are recognised as expenses in the statement of profit or loss on a straight-line method basis over the lease contract period.

Foreign currencies

Transactions in foreign currencies are recorded in Saudi Riyals at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. All differences are taken to the statement of profit or loss. The Gains or losses on foreign currency transactions are included in the statement of profit or loss during the year.

Segment reporting

A segment is a distinguishable component of the Company that is engaged either in providing products or services (a business segment) or in providing products or services within a particular economic environment, which is subject to risks and rewards that are different from those of other segments.

Statutory reserve

As required by Saudi Arabian Regulations for Companies and the Company's By-laws, 10% of the income for the year (after zakat and after deducting losses brought forward) should be transferred to the statutory reserve. This reserve is not available for distribution. As per the By-laws, the Company may resolve to discontinue such transfers when the reserve totals 50% of the capital.

Other real estate asset

The Company acquires certain real estate against settlement of joint ventures and Murabaha, Ijarah and Ijara mawsofa fi athemmah receivable balances. Such real estates are considered as assets held for sale and are initially stated at the lower of net realisable value of due receivable balances or the Joint ventures and the current fair value of related properties, less any costs to sell (if material).

Adoption of the following amendments to existing standards, which have has no significant impact on or after these financial statements:

- Amendments to IASs'-Disclosure Initiative" applicable from January 1, 2017.
- Amendments to IAS 7 – "Statement of Cash Flows", which is applicable for annual periods beginning on or after January 1, 2017. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash change.

(SR'000)

4 CASH AND CASH EQUIVALENTS

	2017	2016
Cash in hand	**23**	23
Cash at bank – current accounts	**29,611**	9,324
	29,634	9,347

Bank balances are with counterparties that have investment grade credit ratings, i.e. the investee is rated at 'BBB' or higher by Standard and Poor's or Moody's.

5 AVAILABLE-FOR-SALE INVESTMENT

Available-for-sale investment represents investment in 120 units of SAIB Saraya Tower Real Estate Development Fund (2016:120 units), a close-ended real estate development fund managed by Alistithmar Capital.

The movement in cost and unrealized loss of the available-for-sale investment during the years 2017 and 2016 was as follows:

	2017	2016
Cost at the beginning and end of the year	**12,000**	12,000
Unrealised gain / (loss):		
At beginning of the year	**(1,012)**	(688)
Change in fair value, net	**1,899**	(324)
At end of the year	**887**	(1,012)
Net carrying amount	**12,887**	10,988

6 MURABAHA RECEIVABLES, NET

	2017	2016
Gross Murabaha receivables	**296,843**	512,957
Less: Unearned income	**(33,321)**	(73,548)
	263,522	439,409
Less: Impairment allowance for credit losses	**(2,773)**	(7,367)
Murabaha receivables, net	**260,749**	432,042

6.1 As at 31 December, the credit quality of Murabaha receivables is as follows:

	2017	2016
Neither past due nor impaired	**140,906**	311,397
Past due but not impaired	**96,029**	77,825
Impaired	**26,587**	50,187
	263,522	439,409

The fair value of collateral of impaired Murabaha receivables held by the Company based on the latest appraisal was SR 73.3 million.

(SR'000)

6 MURABAHA RECEIVABLES, NET (CONTINUED)

6.2 As at 31 December 2017, the ageing of past due but not impaired installments and the related balances of Murabaha receivables are as follows:

Days past due	**Murabaha receivables**	**Past due instalments**
1 – 30	**42,073**	**1,096**
31 – 60	**53,326**	**5,618**
61 –90	**630**	**328**
Total	**96,029**	**7,042**

As at 31 December 2016, the ageing of past due but not impaired installments and the related balances of Murabaha receivables are as follows:

Days past due	Murabaha receivables	Past due instalments
1 – 30	25,064	721
31 – 60	24,034	3,147
61 –90	28,727	596
Total	77,825	4,464

6.3 The maturity profile of Murabaha receivables is as follows:

	31 December 2017			
	Not later than one year	**Later than one year but not later than five years**	**Later than five years**	**Total**
Murabaha receivables	**151,327**	**144,497**	**1,019**	**296,843**
Unearned income	**(15,273)**	**(17,823)**	**(225)**	**(33,321)**
	136,054	**126,674**	**794**	**263,522**
Impairment allowance for credit losses				**(2,773)**
				260,749

	31 December 2016			
	Not later than one year	Later than one year but not later than five years	Later than five years	Total
Murabaha receivables	187,269	294,905	30,783	512,957
Unearned income	(26,231)	(43,099)	(4,218)	(73,548)
	161,038	251,806	26,565	439,409
Impairment allowance for credit losses				(7,367)
				432,042

(SR'000)

6 MURABAHA RECEIVABLES, NET (CONTINUED)

6.4 The movement in impairment allowance for credit losses for the year ended 31 December was as follows:

	2017	2016
Balance at beginning of the year	**7,367**	5,813
(Reversal) / provided during the year, net	**(4,594)**	1,554
Balance at end of the year	**2,773**	7,367

6.5 The table below stratifies credit exposures from Murabaha receivables into ranges of receivable to value ratio. Murabaha receivable to value ratio is calculated by dividing the gross amount of the financing to fair value of the underlying property. The gross amount of financing used in calculating this ratio excludes unearned income and any impairment allowance.

	2017	2016
Less than 50%	**188,120**	140,207
51-70%	**75,402**	206,876
71-85%	**-**	92,326
86-100%	**-**	-
Total Exposure	**263,522**	439,409

None of the account was impaired in the 86%-100% category.

7 IJARA RECEIVABLES, NET

	2017	2016
Gross Ijara receivables	**3,609,120**	3,330,111
Less: Unearned income	**(818,541)**	(752,993)
	2,790,579	2,577,118
Less: Impairment allowance for credit losses	**(46,158)**	(39,705)
Ijara receivables, net	**2,744,421**	2,537,413

7.1 As at 31 December, the credit quality of Ijara receivables is as follows:

	2017	2016
Neither past due nor impaired	**2,354,996**	2,187,275
Past due but not impaired	**252,686**	289,236
Impaired	**182,897**	100,607
	2,790,579	2,577,118

The fair value of collateral of impaired Ijara receivables held by the Company based on the latest appraisal was SR 353.63 million.

7 IJARA RECEIVABLES, NET (CONTINUED)

7.2 As at 31 December 2017, the ageing of past due but not impaired installments and the related balances of Ijara receivables are as follows:

Days past due	Ijara receivables	Past due instalments
1 – 30	**72,466**	**9,187**
31 – 60	**51,523**	**1,878**
61 –90	**128,697**	**12,052**
Total	**252,686**	**23,117**

As at 31 December 2016, the ageing of past due but not impaired installments and the related balances of Ijara receivables are as follows:

Days past due	Ijara receivables (SR '000)	Past due instalments (SR '000)
1 – 30	44,525	4,605
31 – 60	232,728	22,517
61 –90	11,983	1,182
Total	289,236	28,304

7.3 The maturity profile of Ijara receivables is as follows:

	31 December 2017			
	Not later than one year	**Later than one year but not later than five years**	**Later than five years**	**Total**
Ijara receivables	**947,323**	**1,918,528**	**743,269**	**3,609,120**
Unearned income	**(206,662)**	**(418,999)**	**(192,880)**	**(818,541)**
	740,661	**1,499,529**	**550,389**	**2,790,579**
Impairment allowance for credit losses				**(46,158)**
				2,744,721

	31 December 2016			
	Not later than one year	Later than one year but not later than five years	Later than five years	Total
Ijara receivables	754,670	1,891,592	683,849	3,330,111
Unearned income	(170,403)	(421,278)	(161,312)	(752,993)
	584,267	1,470,314	522,537	2,577,118
Impairment allowance for credit losses				(39,705)
				2,537,413

(SR'000)

7 IJARA RECEIVABLES, NET (CONTINUED)

7.4 The movement in Impairment allowance for credit losses for the year ended 31 December was as follows:

	2017	2016
Balance at beginning of the year	**39,705**	32,172
Provided during the year	**6,453**	7,533
Balance at end of the year	**46,158**	39,705

7.5 The table below stratifies credit exposures from Ijara receivables into ranges of receivable to value ratio. Ijara receivable to value ratio is calculated by dividing the gross amount of the financing to fair value of the underlying property. The gross amount of financing used in calculating this ratio excludes unearned income and any impairment allowance.

	2017	2016
Less than 50%	**968,424**	928,863
51-70%	**950,288**	1,046,902
71-85%	**780,163**	498,649
86-100%	**91,704**	102,704
Total Exposure	**2,790,579**	2,577,118

None of the account was impaired in the 86%-100% category.

8 IJARA MAWSOFA FI ATHEMMAH RECEIVABLES, NET

	2017	2016
Gross Ijara mawsofa fi athemmah receivables	**187,232**	201,174
Less: Unearned income	**(69,269)**	(79,071)
	117,963	122,103
Less: Impairment allowance for credit losses	**(1,267)**	(1,885)
Ijara mawsofa fi athemmah receivables, net	**116,696**	120,218

8.1 As at 31 December, the credit quality of Ijara Mawsofa Fi Athemmah receivables is as follows:

	2017	2016
Neither past due nor impaired	**114,199**	117,986
Past due but not impaired	**3,764**	4,117
Impaired	**-**	-
	117,963	122,103

8.2 As at 31 December 2017, the ageing of past due but not impaired installments and the related balances of Ijara Mawsofa Fi Athemmah receivables are as follows:

Days past due	**Ijara Mawsofa receivables**	**Past due instalments**
1 – 30	**2,027**	**10**
31 – 60	**1,017**	**21**
61 –90	**720**	**21**
Total	**3,764**	**52**

(SR'000)

8 IJARA MAWSOFA FI ATHEMMAH RECEIVABLES, NET (CONTINUED)

As at 31 December 2016, the ageing of past due but not impaired installments and the related balances of Ijara Mawsofa Fi Athemmah receivables are as follows:

Days past due	Ijara Mawsofa receivables	Past due instalments
1 – 30	2,028	21
31 – 60	2,089	22
61 –90	-	-
Total	4,117	43

8.3 The maturity profile of Ijara Mawsofa Fi Athemmah receivables is as follows:

	31 December 2017			
	Not later than one year	**Later than one year but not later than five years**	**Later than five years**	**Total**
Ijara Mawsofa Fi Athemmah receivables	18,895	64,528	103,809	187,232
Unearned income	(7,710)	(25,330)	(36,229)	(69,269)
	11,185	**39,198**	**67,580**	**117,963**
Impairment allowance for credit losses				**(1,267)**
				116,696

	31 December 2016			
	Not later than one year	Later than one year but not later than five years	Later than five years	Total
Ijara Mawsofa Fi Athemmah receivables	21,363	68,676	111,136	201,174
Unearned income	(8,438)	(27,077)	(43,557)	(79,071)
	12,925	41,599	67,579	122,103
Impairment allowance for credit losses				(1,885)
				120,218

8.4 The movement in impairment allowance for credit losses for the year ended 31 December was as follows:

	2017	2016
Balance at beginning of the year	**1,885**	1,549
(Reversal) / provided during the year, net	**(618)**	336
Balance at end of the year	**1,267**	1,885

(SR'000)

8 IJARA MAWSOFA FI ATHEMMAH RECEIVABLES, NET (CONTINUED)

8.5 The table below stratifies credit exposures from Ijara Mawsofa Fi Athemmah receivables into ranges of receivable to value ratio. Ijara Mawsofa Fi Athemmah receivables to value ratio is calculated by dividing the gross amount of the financing to fair value of the underlying property. The gross amount of financing used in calculating this ratio excludes unearned income and any impairment allowance.

	2017	2016
Less than 50%	**27,845**	25,791
51-70%	**50,877**	55,104
71-85%	**39,241**	37,261
86-100%	**-**	3,947
Total Exposure	**117,963**	122,103

None of the account was impaired in the 86%-100% category.

9 PREPAYMENTS AND OTHER ASSETS

	2017	2016
Other real estate assets (note 9.1)	**88,237**	-
Receivable from Joint Ventures	**8,540**	28,286
Accrued profit on derivatives	**1,295**	1,882
Prepaid rent	**669**	669
Others	**4,477**	4,084
	103,218	34,921

9.1 During the current year, the Company decided to liquidate two joint ventures. All the underlying assets of respective joint ventures were settled in kind between the joint ventures partners proportionate to their respective share. The Company considered these assets as held for sale and are initially stated at the lower of cost and the fair value of the related properties, less any costs to sell.

10 INVESTMENTS IN JOINT VENTURES

The Company has joint control and ownership interest varying between 40% to 90% with different joint arrangements. The joint ventures (JVs) are structured as a separate vehicle and the Company has a residual interest in its net assets. Accordingly, the Company has classified its interest as a joint venture, which is equity-accounted. The Company does not consolidate the results of the JVs as it shares control and equal representation on the Board with the co-venturers.

No new investments in excess of original commitments have been made by the Company after 7 November 2014 to comply with the real estate financing laws. The existing portfolio will remain in the name of Company till maturity and disbursements for commitments in investments for ongoing operations will continue to be booked by the Company.

The Company has accounted for the joint ventures based on the latest available management accounts of the JVs. The financial statements of the JVs are prepared for the same reporting period as that of the Company, using consistent accounting policies except for revenue recognition.

In accordance with the agreements under which JVs are established, the Company and the co-venture have agreed to make additional contributions in proportion to their interests to make up any losses, if required.

10 INVESTMENTS IN JOINT VENTURES (CONTINUED)

a) Movement in investment in Joint Ventures is as follows:

For the year ended 31 December 2017	Location	% of shareholding	Opening balance	Additions	Share in net income (SR '000)	Withdrawals	Closing balance
a) Dar wa Emar, Olaya	AlOlaya, AlKhobar	50%	**39,725**	**5,072**	**4,609**	**(38,188)**	**11,218**
b) Dar wa Emar, Rahba	AlRahba, AlKhobar	90%	**17,488**	**--**	**650**	**(8,858)**	**9,280**
d) AbdulAziz Al Qassim, Malga III	Malga, Riyadh	40%	**27,482**	**718**	**3,135**	**(22,303)**	**9,032**
h) Tharaa Real Estate Investment	AlMarooj, AlKhobar	50%	**8,595**	**46,440**	**-**	**(55,035)**	**-**
j) Al Masharia Al Oula	Al Yasmin District, Riyadh	60%	**14,125**	**-**	**517**	**(14,642)**	**-**
k) Saudi Kyan III	AlNawras, AlKhobar	60%	**5,409**	**-**	**-**	**(5,409)**	**-**
			112,824	**52,230**	**8,911**	**(144,435)**	**29,530**

For the year ended 31 December 2016	Location	% of shareholding	Opening balance	Additions	Share in net income / (loss) (SR '000)	Withdrawals	Closing balance
a) Dar wa Emar, Olaya	AlOlaya, AlKhobar	50%	16,068	35,511	1,840	(13,694)	39,725
b) Dar wa Emar, Rahba	AlRahba, AlKhobar	90%	28,364	-	1,800	(12,676)	17,488
c) Teraz Arabia	Erga, Riyadh	70%	15,926	-	4,549	(20,475)	-
d) AbdulAziz Al Qassim, Malga III	Malga, Riyadh	40%	22,949	4,533	-	-	27,482
f) Albani Development Company	Al Yasmin District, Riyadh	50%	3,254	-	(201)	(3,053)	-
g) Saudi Kayan II	AlNawras, AlKhobar	60%	4,110	579	137	(4,826)	-
h) Tharaa Real Estate Investment	AlMarooj, AlKhobar	50%	3,640	8,063	1,977	(5,085)	8,595
i) Abdul Aziz Al Qassim, Al-Aqeeq	AlAqeeq, Riyadh	60%	1,784	600	963	(3,347)	-
j) Al Masharia Al Oula	Al Yasmin District, Riyadh	60%	10,443	2,700	982	-	14,125
k) Saudi Kyan III	AlNawras, AlKhobar	60%	4,659	-	750	-	5,409
			111,197	51,986	12,797	(63,156)	112,824

(SR'000)

10 INVESTMENTS IN JOINT VENTURES (CONTINUED)

b) The Company has accounted for the joint ventures based on the latest available management accounts of the JVs. The financial statements of JVs are prepared for the same reporting period as that of the Company, using consistent accounting policies except for revenue recognition. Necessary, adjustments have been made to the financial statements of the JVs to align with the Company's financial statements. The following table illustrates summarised financial information of the Company's outstanding investment in joint ventures:

For the year ended 31 December 2017	Company's effective holding	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Equity	Revenue	Profit
a) Dar wa Emar, Olaya	**50%**	**22,436**	**-**	**-**	**-**	**22,436**	**58,237**	**9,218**
b) Dar wa Emar, Rahba	**90%**	**10,311**	**-**	**-**	**-**	**10,311**	**14,256**	**722**
c) AbdulAziz Al Qassim, Malga III	**40%**	**22,580**	**-**	**-**	**-**	**22,580**	**60,505**	**7,839**
		55,327	**-**	**-**	**-**	**55,327**	**132,998**	**17,779**

For the year ended 31 December 2016	Company's effective holding	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Equity	Revenue	Profit
a) Dar wa Emar, Olaya	50%	2,789	101,491	1,122	-	103,158	-	-
b) Dar wa Emar, Rahba	90%	19,431	-	-	-	19,431	15,440	2,000
c) AbdulAziz Al Qassim, Malga III	40%	2,250	66,454	-	-	68,704	-	-
d) Tharaa Real Estate Investment	50%	2,127	97,101	74,368	-	24,860	-	-
e) Al Masharia Al Oula	60%	12,216	11,325	-	-	23,541	12,100	1,637
f) Saudi Kyan III	60%	11,864	-	2850	-	9,014	20,950	5,028
		50,677	276,371	78,340	-	248,708	48,490	8,665

(SR'000)

11 PROPERTY AND EQUIPMENT, NET

For the year ended 31 December 2017	Land	Leasehold improvements	Office equipment	Furniture and fixtures	Information technology equipment	Work in Progress**	Total
Cost:							
Balance at beginning of the year	18,655	3,664	643	2,450	17,195	3,893	**46,500**
Additions during the year	-	-	80	36	1,379	3,181	**4,676**
Balance at end of the year	18,655	3,664	723	2,486	18,574	7,074	**51,176**
Accumulated depreciation:							
Balance at beginning of the year	-	1,886	424	1,941	13,067	-	**17,318**
Charge for the year	-	361	70	128	1,495	-	**2,054**
Balance at end of the year	-	2,247	494	2,069	14,562	-	**19,372**
Impairment loss on property & Equipment*	2,905	-	-	-	-	-	**2,905**
Net book value:							
At 31 December 2017	**15,750**	**1,417**	**229**	**417**	**4,012**	**7,074**	**28,899**

*During current year, the Company recognized an impairment loss of SR 2.9 million on land, as a difference between the recoverable amount and carrying value.

**Work in progress as at 31 December 2017 represents the amount paid for information technology system enhancement.

(SR'000)

11 PROPERTY AND EQUIPMENT NET (CONTINUED)

For the year ended 31 December 2016	**Land**	**Leasehold improvements**	**Office equipment**	**Furniture and fixtures**	**Information technology equipment**	**Work in Progress***	**Total**
Cost:							
Balance at beginning of the year	18,655	2,000	475	2,076	13,666	5,564	42,436
Additions during the year	-	936	161	259	2,407	301	4,064
Transferred to fixed assets	-	728	7	115	1,122	(1,972)	-
Balance at end of the year	18,655	3,664	643	2,450	17,195	3,893	46,500
Accumulated Depreciation:							
Balance at beginning of the year	-	1,160	366	1,691	12,071	-	15,288
Charge for the year	-	726	58	250	996	-	2,030
Balance at end of the year	-	1,886	424	1,941	13,067	-	17,318
Net book value:							
At 31 December 2016	**18,655**	**1,778**	**219**	**509**	**4,128**	**3,893**	29,182

*Work in progress as at 31 December 2016 represents the amount paid for information technology system enhancement.

(SR'000)

12 ACCRUED EXPENSES AND OTHER LIABILITIES

	2017	2016
Financing to customers (note 12.1)	**28,073**	590
Salaries and employee related expenses	**13,705**	14,654
Accrued expenses	**7,932**	8,930
Advances received from Murabaha and Ijara customers	**7,820**	11,985
Others (note 12.2)	**10,782**	4,233
	68,312	40,392

12.1 Financing to customers arise when the financing arrangement has been agreed with the customer, but the amount is not disbursed due to a normal delay in the transfer of property.

12.2 Others include late payment charges collected from customers amounting to SR 8.3 million (2016: SR 2.7 million). In accordance with the Shari'a advisor, late payment charges collected is recognized as other liabilities in statement of financial positions and is paid as charities.

13 DERIVATIVE

As at 31 December 2017, the Company held Profit Rate Swaps ("PRS") of a notional value of SR 200 million (2016: SR 302 million) in order to hedge its exposure to commission rate risks related to long term financing. The table below shows the fair values of derivative financial instruments, recorded as assets and liabilities:

31 December 2017	**Positive fair value of PRSs**	**Negative fair value of PRSs**	**Cash flow hedge reserve**
Current portion	**1,046**	**(666)**	**380**

31 December 2016	Positive fair value of PRSs	Negative fair value of PRSs	Cash flow hedge reserve
Current portion	2,582	(746)	1,836

14 ZAKAT AND INCOME TAX

a) Charge for the year

	2017	2016
Current zakat (note (b))	**2,717**	2,926
Current income tax (note (c))	**724**	780
	3,441	3,706

(SR'000)

14 ZAKAT AND INCOME TAX (CONTINUED)

b) Zakat

The elements of the Company's zakat base are as follows:

	2017	2016
Shareholders' equity	**903,000**	900,000
Bank borrowings	**2,072,175**	2,102,270
Opening provisions and adjustments	**57,791**	6,754
Book value of property and equipment	**(16,716)**	(16,716)
Net investment in finance lease	**(3,201,594)**	(3,168,160)
Adjusted net asset of the Company	**(185,344)**	(175,852)
Adjusted net income for the year	**112,289**	120,957
Zakat base (higher of adjusted net asset or net income)	**112,289**	120,957

The differences between the financial and zakat results are mainly due to additional provisions and differences in depreciation rates in the calculation of zakatable income.

Zakat is calculated based on the zakat base for the year ended 31 December, attributable to the ultimate Saudi and GCC shareholders as follows:

	2017	2016
Zakat base attributable to Saudi and GCC shareholders (96.8%)	**108,683**	117,059
Zakat @ 2.5%	**2,717**	2,926

The movement in zakat provision for the year ended 31 December is as follows:

	2017	2016
As at 1 January	**3,163**	3,006
Charge for the year	**2,717**	2,926
Payment made during the year	**(2,943)**	(2,769)
As at 31 December	**2,937**	3,163

c) Income tax

Income tax charge for the year ended 31 December has been calculated based on adjusted net income as follows:

	2017	2016
Adjusted net income	**112,289**	120,957
Adjusted net income attributable to Non-Saudi shareholders (3.22%)	**3,618**	3,898
Income tax payable @ 20%	**724**	780

The movement in income tax provision for the year ended 31 December is as follows:

	2017	2016
As at 1 January	**840**	792
Charge for the year	**724**	780
Payment made during the year	**(779)**	(732)
As at 31 December	**785**	840

14 ZAKAT AND INCOME TAX (CONTINUED)

d) Zakat and income tax assessment status

The Company has submitted its zakat and income tax declarations for the years ended 31 December 2007 through 2015 with the General Authority of Zakat and Income Tax ("GAZT"). The status of assessments is as follows:

a) The GAZT has assessed additional zakat of SR 39.5 million for the years from 2007 to 2010. This is principally due to the fact that the GAZT has not allowed a deduction from zakat base of the net investment in finance leases.

   The Company's appeal with the Preliminary Appeal Committee against the GAZT's assessment order related to the years 2007 to 2010 and against the interim assessment order related to 2012 was disallowed on 21 April 2014. As a result, the Company had filed an appeal before the Higher Appeal Committee. In November 2016, a letter from GAZT was received to attend a hearing on 05/04/1438 (corresponding to 3 January 2017) on the Appeal filed for 2007-2010 with the Higher Appeal Committee against the decision taken by the Preliminary Appeal committee. The hearing was later postponed until further notice. The Company is contesting this assertion through professional representations.

b) During the year 2016, the Company has received a letter from GAZT assessing additional zakat and income tax of SR 43.5 million for the 2011 and 2012 assessment years. In arriving at this figure, GAZT once again disallowed the deduction of net investments / financing receivables from the zakat base. The Company is contesting this assertion through professional representations.

   Preliminary Objection Committee (POC) gave verdict dated 03/09/1438H (corresponding to 29/05/2017G) against Amlak International rejecting the appeal and restating their earlier argument. Responding this decision, Amlak has filed an appeal with the Higher Appeal Committee as on 08/11/1438H (corresponding to 31/07/2017). A bank guarantee amounting to SR 43.5 million was issued for this appeal.

c) On 08/11/1438H (corresponding to 31/07/2017), the Company received a letter from GAZT for the period covering from 2013 to 2016 asking for certain details to which the Company has replied on 29/12/1438H (corresponding to 20/09/2017G).The Company has not considered the disallowances of deduction of net investment in finance leases for the years ended 31 December 2013, 2014, 2015 and 2016 and in the current period financial statements. There is a potential risk of additional claims by the GAZT, if the same principle were to be applied for these years. If the precedent by the GAZT in respect of the Company's zakat base for 2011 and 2012 are applied, the potential risk of additional zakat to be assessed by the GAZT would be in the region of SR 26 million for each year from 2013 to 2016.

d) For 2017, while calculating the zakat liability, the Company has not considered the disallowances of deduction of net investment in finance leases. If the Company has considered the above disallowances of deduction, the Zakat liability will be higher by SR 55 million.

The Company considers it unlikely that the present position of GAZT will be upheld, because the issue of deduction of net investment in finance leases has industry wide implications for leasing, mortgage finance business and any other finance related business where the main assets are receivables. Due to the uncertainties involved, the Company is unable to assess accurately the outcome of this matter and has not provided for any potential additional liability, which might arise from the assessment appeal and also from potential assessment of open years in these financial statements.

(SR'000)

15 BANK BORROWINGS

These represent amounts borrowed from local commercial banks. These facilities carry borrowing costs at commercial rates ranging from 3 months to 3 years SIBOR plus spread with maturity ranging from 1 month to 5 years and are secured by the assignment of proceeds from instalment receivables. Under the terms of the financing arrangement, the Company has to adhere to certain financial and non-financial covenant. The Company is in compliance with all the covenants. As at 31 December, a breakdown of bank borrowing by maturity is as follows:

	2017	2016
Current portion	**861,375**	810,678
Non-current portion	**1,210,800**	1,291,592
	2,072,175	2,102,270

15.1 The movement in bank borrowings for the year ended 31 December was as follows:

	2017	2016
Balance at beginning of the year	**2,102,270**	1,860,761
Borrowings made during the year	**817,500**	1,229,700
Principal repaid during the year	**(846,331)**	(992,586)
Profit accrued during the year	**91,755**	81,809
Profit repaid during the year	**(93,019)**	(77,414)
Balance at end of the year	**2,072,175**	2,102,270

16 EMPLOYEE BENEFITS

The following tables summarise the components of employee benefits recognised in the statements of financial position, profit or loss and other comprehensive income.

a) Amount recognised in the statement of financial position:

	2017	2016
Present value of defined benefit obligation	**12,909**	8,834

b) Benefit expense (recognised in statement of profit or loss):

	2017	2016
Current service cost	**4,123**	1,347
Interest cost	**386**	236
Benefit expense	**4,509**	1,583

(SR'000)

16 EMPLOYEES' TERMINAL BENEFITS (CONTINUED)

c) Movement in the present value of defined benefit obligation:

	2017	2016
Present value of defined benefit obligation at beginning of the year	**8,834**	7,839
Charge recognised in the statement of profit or loss:		
Current service cost	**4,123**	1,347
Interest cost	**386**	236
	4,509	1,583
Actuarial gain on defined benefit plan recognized in the statement of other comprehensive income	**(268)**	-
Benefits paid	**(166)**	(588)
Present value of defined benefit obligation at end of the year	**12,909**	8,834

d) Principal actuarial assumptions:

	2017	2016
Discount rate	**3.05%**	3.5%
Salary increase rate	**3.05%**	3.5%

e) Sensitivity Analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

	31 December 2017	
	Increase	**Decrease**
Discount rate (0.5% movement)	**595**	**(644)**
Future salary growth (0.5% movement)	**662**	**(618)**

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

17 SHARE CAPITAL

The Company's authorised, issued and paid-up share capital is SR 903 million (31 December 2016: SR 900 million) divided into 90.3 million shares (31 December 2016: 90 million shares) with a nominal value of SR 10 each.

During the current year, in accordance with the approval in annual general meeting held on 16 May 2017, the Company issued 300,000 shares at par value to its employees as an incentive bonus.

18 STATUTORY RESERVE

In accordance with the Company's By-laws and the Regulation for Companies in Saudi Arabia, 10% of the annual net income after zakat and income tax, after absorption of accumulated losses, is transferred to a statutory reserve until such reserve equals 50% of its share capital. This reserve is not available for distribution to the shareholders. During the year, the Company has transferred SR 10.3 million (2016: SR 10.5 million).

19 DIVIDENDS

During the current year, the shareholders have approved and declared dividend of SR Nil (31 December 2016: SR 67.5 million was declared and approved, paid in the current year.

20 EARNINGS PER SHARE

The basic and diluted earnings per share has been computed by dividing profit for the year by the weighted number of shares outstanding during the year.

	2017	2016 (Restated)
Profit for the year (SR '000)	**103,520**	109,040
Weighted average number of ordinary shares (in thousands)	**90,188**	90,000
Basic and diluted earnings per share (SR)	**1.14**	1.21

21 GENERAL AND ADMINISTRATIVE EXPENSES

	2017	2016
Salaries and employee related cost	**49,863**	46,640
Board fee and expenses	**3,424**	2,900
Rent	**2,899**	2,766
Information Technology expenses	**2,082**	2,339
Professional fee	**2,043**	3,196
Depreciation (note 11)	**2,054**	2,030
Maintenance expenses	**552**	519
Travelling expenses	**879**	850
Communication	**798**	683
Others	**2,506**	2,704
	67,100	64,627

22 SELLING AND MARKETING EXPENSES

	2017	2016
Marketing expenses	**3,021**	4,000
Outsourcing costs	**2,883**	2,595
Insurance	**3,051**	2,325
	8,955	8,920

23 RELATED PARTY TRANSACTIONS AND BALANCES

The related parties of the Company include the shareholders and their affiliated entities and certain key management personnel. In the ordinary course of its activities, the Company transacts business with its related parties on mutually agreed terms.

In addition to the related party transactions and balances disclosed elsewhere in these financial statements, significant transactions and balances arising from transactions with related parties are as follows:

(SR'000)

23 RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

Nature of transactions	Name of related party and relationship	Amounts of transactions 2017	2016
Borrowing facility cost and charges	The Saudi Investment Bank (shareholder)	**27,164**	25,124
Rent expense	Saudi Orix Leasing (affiliate)	**1,632**	1,592
Security and other expenses	Saudi Orix Leasing (affiliate)	**188**	147
Arrangement fee	Alistithmar Capital (affiliate)	**500**	530
PRS (profit) cost received / paid	The Saudi Investment Bank (shareholder)	**55**	263
Salaries and benefits	Key management personnel*	**9,557**	7,874
Board meeting fees and other expenses	Board members	**3,424**	2,900

* Key management personnel represent the chief executive and his direct reports.

Nature of balances and names of related parties	Relationship	Balances	
Bank balances and cash:			
The Saudi Investment Bank	Shareholder	**25,408**	3,395
Due from related parties:			
Saudi Kayan III	Joint venture	**-**	5,556
Tharaa Real Estate Investment	Joint venture	**-**	8,029
Alistithmar Capital	Affiliate	**1,507**	1,007
Dar Wa Emar – Olaya	Joint venture	**7,033**	13,694
Bank borrowings:			
The Saudi Investment Bank	Shareholder	**596,117**	672,467
Notional amount of Profit Rate Swaps (PRS):			
The Saudi Investment Bank	Shareholder	**50,000**	85,000
Financing and advances:			
Key management personnel	Key management	**3,241**	4,361
Available-for-sale investment:			
SAIB Saraya Tower Real Estate Development Fund	Affiliate	**12,887**	10,988
Other receivables:			
Amlak International For Real Estate Development	Affiliate	**1**	1
Prepaid rent:			
Saudi Orix Leasing	Affiliate	**398**	398
Board meeting and other expenses payable			
Board members	Board members	**2,776**	3,900

24 RISK MANAGEMENT

Financial instruments carried on the statement of financial position comprise bank balances, Murabaha receivables, Ijara receivables, Ijara mawsofa fi athemmah receivables, available-for-sale investment, bank borrowings, positive and negative fair value of derivative, other receivables and payables.

Financial assets are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

The classification of financial assets depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

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24 RISK MANAGEMENT (CONTINUED)

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

Risk management is carried out under policies approved by the management. The management identifies, evaluates and hedges financial risks and has written principles for overall risk management covering specific areas, such as credit risk, liquidity risk and market risk.

1) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company has established procedures to manage credit exposure including evaluation of lessees' / borrowers credit worthiness, formal credit approvals, assigning credit limits, obtaining collateral such as title on leased financed assets and personal guarantees.

Concentrations of credit risk arises when a number of counter-parties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be affected similarly by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographical location.
The Company follows a credit classification mechanism, as a tool to manage the quality of credit risk of the financed Murabaha, Ijara and Ijara mawsofa fi athemmah portfolios. The credit classification differentiates between performing and non-performing portfolios, and allocates provisions accordingly.

The carrying amount of financial assets represents the maximum credit exposure. The exposure to credit risk at the reporting date was on account of:

	2017	2016
Cash and cash equivalents	**29,611**	9,324
Murabaha receivables, net	**260,749**	432,042
Ijara receivables, net	**2,744,421**	2,537,413
Ijara mawsofa fi athemmah receivables, net	**116,696**	120,218
Receivable from joint ventures	**8,540**	28,286
Accrued profit on derivatives	**1,295**	1,882
	3,161,312	3,129,165

Following are the details of credit quality of Murabaha receivables, Ijara receivables and Ijara mawsofa fi athemmah receivables.

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24 RISK MANAGEMENT (CONTINUED)

1) Credit risk (Continued)

a) Neither past due nor impaired receivables

	Murabaha receivables	Ijara receivables	Ijara Mawsofa fi athemmah receivables	Total
31 December 2017				
Category -1	**57,469**	**575,563**	**-**	**633,032**
Category -2	**79,756**	**1,110,788**	**40,372**	**1,230,916**
Category -3	**3,681**	**658,330**	**73,827**	**735,838**
Category -4	**-**	**10,315**	**-**	**10,315**
Total	**140,906**	**2,354,996**	**114,199**	**2,610,101**
31 December 2016				
Category -1	90,412	488,525	-	578,937
Category -2	161,581	1,108,233	37,189	1,307,003
Category -3	58,507	583,173	80,797	722,477
Category -4	897	7,344	-	8,241
Total	311,397	2,187,275	117,986	2,616,658

a) Neither past due nor impaired receivables (Continued)

Category -1
Very strong quality: Capitalisation, earnings, financial strength, liquidity, management, market reputation and repayment ability are excellent.

Category -2
Good quality: Capitalisation, earnings, financial strength, liquidity, management, market reputation and repayment ability are good.

Category -3
Satisfactory quality: Facilities require regular monitoring due to financial risk factors. Ability to repay remains at a satisfactory level.

Category -4
Special mention: Facilities require close attention of management due to deterioration in the borrowers' financial condition. However, repayment is currently protected.

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24 RISK MANAGEMENT (CONTINUED)

2) Market rate risk

2.1Profit rate risk

Profit rate risk is the uncertainty of future earnings resulting from fluctuations in profit rates. The risk arises when there is a mismatch in the assets and liabilities which are subject to profit rate adjustment within a specified period. The most important source of such rate risk is the Company's borrowings and financing activities, where fluctuations in profit rates, if any, are reflected in the results of operations.

The following table depicts the sensitivity to a reasonable possible change in profit rates, with other variables held constant, on the Company's statement of profit or loss. The sensitivity of the income is the effect of the assumed changes in profit rates on the net commission income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at 31 December 2017 and 2016. All the exposures are monitored and analysed in major currency concentrations and relevant sensitivities are disclosed in SR thousands.

	2017		2016	
	Change in basis points	**Impact on net income**	Change in basis points	Impact on net income
Saudi Riyals	**+100**	**7,670**	+100	8,485
Saudi Riyals	**-100**	**(7,670)**	-100	(8,485)

The Company manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market profit rates on its financial position and cash flows. The table below summarises the Company's exposure to profit rate risks. Included are the Company's assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates. The Company is exposed to special profit rate risk as a result of mismatches or gaps in the amounts of assets and liabilities that mature or re-price in a given period. The Company manages this risk through diversification of funding resources and use of derivative financial instruments.

The table below summarizes the Company's exposure to profit rate risks

	Profit bearing					
31 December 2017	**Within 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Non-profit bearing**	**Total**
Assets						
Cash and cash equivalents	-	-	-	-	29,634	**29,634**
Available-for-sale investments	-	-	-	-	12,887	**12,887**
Murabaha receivables, net	47,097	87,570	125,294	788	-	**260,749**
Ijara receivables, net	490,595	1,040,428	1,133,679	79,719	-	**2,744,421**
Ijara mawsofa fi athemmah receivables, net	45,251	71,445	-	-	-	**116,696**
Positive fair value of derivatives	-	-	-	-	1,046	**1,046**
	582,943	1,199,443	1,258,973	80,507	43,567	**3,165,433**
Liabilities						
Negative fair value of derivatives	-	-	-	-	666	**666**
Bank borrowings	1,451,676	416,814	203,685	-	-	**2,072,175**
Total liabilities	1,451,676	416,814	203,685	-	666	**2,072,841**
Gap	**(868,733)**	**782,629**	**1,055,288**	**80,507**	**42,901**	
Cumulative Gap	**(868,733)**	**(86,104)**	**969,184**	**1,049,691**	**1,092,592**	

(SR'000)

24 RISK MANAGEMENT (CONTINUED)

2) Market rate risk

The table below summarizes the Company's exposure to profit rate risks

	Profit bearing					
31 December 2016	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-profit bearing	Total
Assets				-		
Cash and cash equivalents	-	-	-	-	9,347	9,347
Available-for-sale investments	-	-	-	-	10,988	10,988
Murabaha receivables, net	49,512	108,491	247,887	26,152	-	432,042
Ijara receivables, net	459,741	864,105	1,124,434	89,133	-	2,537,413
Ijara mawsofa fi athemmah receivables, net	45,921	73,066	1,231	-	-	120,218
Positive fair value of derivatives	-	-	-	-	2,582	2,582
	555,174	1,045,662	1,373,552	115,285	22,917	3,112,590
Liabilities						
Negative fair value of derivatives	-	-	-	-	746	746
Bank borrowings	1,478,963	237,779	385,528	-	-	2,102,270
Total Liabilities	1,478,963	237,779	385,528	-	746	2,103,016
Gap	(923,789)	807,883	988,024	115,285	22,171	
Cumulative Gap	(923,789)	(115,906)	872,118	987,403	1,009,574	

2.2) Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company is subject to fluctuations in foreign exchange rates in the normal course of its business. The Company did not undertake significant transactions in currencies other than Saudi Riyals and US Dollars.

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24 RISK MANAGEMENT (CONTINUED)

3) Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately. Management monitors the maturity profile to ensure that adequate liquidity is maintained.

3.1) Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Company's financial liabilities at 31 December 2017 and 31 December 2016 based on contractual undiscounted repayment obligations. The contractual maturities of financial liabilities have been determined based on the remaining period at the statement of financial position date to the contractual maturity date.

	Fixed maturity					
31 December 2017	**Within 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**No fixed maturity**	**Total**
Accrued expenses and other liabilities	45,498	22,814	-	-	-	**68,312**
Bank borrowings	224,618	636,757	1,210,800	-	-	**2,072,175**
Derivatives	-	-	17,365	-	-	**17,365**
Total	**270,116**	**659,571**	**1,228,165**	-	-	**2,157,852**

	Fixed maturity					
31 December 2016	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
Accrued expenses and other liabilities	16,470	20,946	2,976	-	-	40,392
Bank borrowings	236,558	574,120	1,291,592	-	-	2,102,270
Derivatives	-	-	30,633	-	-	30,633
Total	253,028	595,066	1,325,201	-	-	2,173,295

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24 RISK MANAGEMENT (CONTINUED)

3) Liquidity risk (continued)

The table below shows an analysis of assets and liabilities, analysed according to when they are expected to be recovered or settled.

	Fixed maturity					
31 December 2017	**Within 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**No fixed maturity**	**Total**
Assets						
Cash and cash equivalents	-	-	-	-	29,634	**29,634**
Available-for-sale investments	-	-	12,887	-	-	**12,887**
Murabaha receivables, net	47,097	87,570	125,294	788	-	**260,749**
Ijara receivables, net	195,176	533,918	1,474,228	541,099	-	**2,744,421**
Ijara mawsofa fi athemmah receivables, net	3,017	8,052	38,779	66,848	-	**116,696**
Positive fair value of derivatives	-	-	1,046	-	-	**1,046**
Prepayments and other assets	25,099	76,033	2,086	-	-	**103,218**
Investment in joint ventures	11,960	17,570	-	-	-	**29,530**
Property and equipment	426	1,278	8,858	2,587	15,750	**28,899**
Total assets	**282,775**	**724,421**	**1,663,178**	**611,322**	**45,384**	**3,327,080**
Liabilities						
Accrued expenses and other liabilities	45,498	22,814	-	-	-	**68,312**
Negative fair value of derivatives	-	-	666	-	-	**666**
Zakat and income tax payable	-	3,722	-	-	-	**3,722**
Bank borrowings	224,618	636,757	1,210,800	-	-	**2,072,175**
Employees benefits	-	-	-	-	12,909	**12,909**
Total liabilities	**270,116**	**663,293**	**1,211,466**	**-**	**12,909**	**2,157,784**

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24 RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

	Fixed maturity					
31 December 2016	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
Assets			(SR '000)			
Cash and cash equivalents	-	-	-	-	9,347	9,347
Available-for-sale investments	-	-	10,988	-	-	10,988
Murabaha receivables, net	49,512	108,491	247,887	26,152	-	432,042
Ijara receivables, net	173,378	402,216	1,447,418	514,401	-	2,537,413
Ijara mawsofa fi athemmah receivables, net	3,343	9,390	40,954	66,531	-	120,218
Positive fair value of derivatives	4	122	2,456	-	-	2,582
Prepayments and other assets	34,921	-	-	-	-	34,921
Investment in joint ventures	28,256	84,568	-	-	-	112,824
Property and equipment	426	1,278	6,764	2,059	18,655	29,182
Total Assets	289,840	606,065	1,756,467	609,143	28,002	3,289,517
Liabilities						
Accrued expenses and other liabilities	16,469	20,947	2,976	-	-	40,392
Negative fair value of derivatives	-	-	746	-	-	746
Zakat income tax payable	-	4,003	-	-	-	4,003
Bank borrowings	236,558	574,120	1,291,592	-	-	2,102,270
Employee benefits	-	-	-	-	8,834	8,834
Total liabilities	253,027	599,070	1,295,314	-	8,834	2,156,245

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25 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the Company.

Financial instruments comprise financial asset, financial liabilities and derivatives.

Financial assets consist of bank balances, available–for-sale investments, derivatives related interest swaps, murabaha, ijara, ijara mawsofa fi athemmah receivable and receivable from joint ventures. Financial liabilities consist of bank borrowings, payables and derivatives relates to interest rate swaps.

Fair value hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows the carrying amount and fair values of financial assets and financial liabilities where fair value is different from carrying value or where the financial assets and liabilities are recorded at fair value, including their levels in the fair value hierarchy.

			Fair Value		
31 December 2017	**Carrying Value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets:					
Murabaha receivables, net	**263,522**	**-**	**-**	**224,611**	**224,611**
Available-for-sale investment	**12,887**	**-**	**12,887**	**-**	**12,887**
Positive fair value of derivatives	**1,046**	**-**	**1,046**	**-**	**1,046**
Financial liabilities:					
Negative fair value of derivatives	**666**	**-**	**666**	**-**	**666**

			Fair Value		
31 December 2016	Carrying Value	Level 1	Level 2	Level 3	Total
Financial assets:					
Murabaha receivables, net	439,409	-	-	414,482	414,482
Available-for-sale investment	10,988	-	10,988	-	10,988
Positive fair value of derivatives	2,582	-	2,582	-	2,582
Financial liabilities:					
Negative fair value of derivatives	746	-	746	-	746

(SR'000)

25 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The valuation of Murabaha Receivables is estimated using contractual cash flows discounted at latest vairable yield, which is the contracted profit rate for recent transactions. Input into the discounted cash flow techniques includes Sauid Inter Bank Offer rates (SIBOR), contractual cash flows and primary origination spreads.

The fair value of ijara receivables, ijara mawsofa fi athemmah receivables and bank borrowings, is approximate to carrying amount as the entire financing portfolio and borrowings are floating rate.

There have been no transfers to and from Level 3 during the year

26 CAPITAL ADEQUACY

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain a strong capital base. Capital adequacy ratios as monitored and measured by the management below measure capital adequacy by comparing the Company's eligible capital with its statement of financial position, commitments and notional amount of derivatives, if any, at a weighted amount determined by management to reflect their relative risk.

	2017		2016 (Restated)	
	Total capital ratio %	**Tier I capital ratio %**	Total capital ratio %	Tier I capital ratio %
Capital adequacy ratio	**44.02**	**43.97**	48.70	42.61

27 COMMITMENTS AND CONTINGENCIES

The Company has facilities approved but not utilised, indicative offers issued which are under consideration of the customers and due diligence in progress as of the reporting date which have the potential to convert into financing amounting to SR 287 million (31 December 2016: SR 138 million).

The Company has outstanding guarantee of SR 82.9 million (31 December 2016: SR 39.4 million) submitted in favour of GAZT for appeal filled by the Company.

The Company is committed to investment in joint venture projects amounting to SR 5.2 million (31 December 2016: SR 52 million).

The future minimum lease payments under non-cancellable operating leases where the Company is the lessee are as follows:

	2017	2016
Within 1 year	**659**	1,900
Over 1 year	**909**	-
	1,568	1,900

(SR'000)

28 PROSPECTIVE CHANGE IN ACCOUNTING STANDARDS

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

Following is a brief on the new IFRS and amendments to IFRS effective for annual periods beginning on or after 1 January 2017.

	Effective for annual periods beginning on or after
IFRS 9, Financial instruments	1 January 2018
IFRS 15, Revenue from contracts with customers	1 January 2018
Amendments to IFRS 2	1 January 2018
IFRS 16, Leases	1 January 2019

Implementation and Impact of IFRS 9:

Implementation strategy:

In July 2014, the IASB issued IFRS 9 Financial Instruments, the standard that replaces IAS 39 Financial Instruments: Recognition and Measurement effective from 1 January 2018, with early adoption permitted. The Company considers implementing IFRS 9 as a significant project and therefore has set up a multidisciplinary implementation team with members from its Credit risk and Modeling, Finance, IT, Operations and other respective businesses to achieve a successful and robust implementation. The project is managed by the Chief Financial Officer and the Head of Risk.

Classification and measurement:

The classification and measurement of financial assets (except equity instruments and derivatives) will depend on how these are managed (the entity's business model) and their contractual cash flow characteristics. These factors determine whether the financial assets are measured at amortised cost, fair value through other comprehensive income ('FVOCI') or fair value through profit or loss ('FVTPL'). For equity instruments that are not held for trading, the Company may irrevocably elect to designate them as FVOCI, with no subsequent reclassification of gains or losses to the income statement. This election is made on an investment-by-investment basis.

The majority of financial assets that are classified as loans and receivables and are measured at amortised cost under IAS 39 are expected to be measured at amortised cost under IFRS 9 as well.

Under IFRS 9, the accounting for financial liabilities will largely remain similar to IAS 39. The de-recognition rules have been transferred from IAS 39 and have not been changed. The Company therefore does not expect any material impact on its financial liabilities and the de-recognition accounting policy.

28 PROSPECTIVE CHANGE IN ACCOUNTING STANDARDS (CONTINUED)

Impairment:

The Company will recognise impairment allowances based on a forward looking Expected Credit Loss (ECL) approach on financial assets that are not measured via FVTPL. This mainly include financing, investments that are measured at amortised cost or at FVOCI (other than equity investments), lease receivables and credit commitments. No impairment loss will be recognised on equity investments. The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD)
- Loss given default (LGD)
- Exposure at default (EAD)

The above parameters are generally derived from internally developed statistical models, other historical data and are adjusted for forward looking information. The Company will categorise its financial assets into following three stages in accordance with IFRS 9 methodology:

- **Stage 1:** Performing assets: Financial asset(s) that have not significantly deteriorated in credit quality since origination. The impairment allowance will be recorded based on 12 months ECL.
- **Stage 2:** Underperforming assets: Financial asset(s) that have significantly deteriorated in credit quality since origination. This credit quality assessment is made by comparing the remaining lifetime PD as at reporting date with the remaining lifetime PD point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations). The impairment allowance will be recorded based on lifetime ECL.
- **Stage 3:** Impaired assets: For Financial asset(s) that are impaired, the Company will recognise the impairment allowance based on lifetime ECL.

The Company will also consider the forward-looking information in its assessment of significant deterioration in credit risk since origination as well as the measurement of ECLs.

The forward-looking information will include the elements such as macroeconomic factors (e.g., unemployment, GDP growth, inflation, profit rates and house prices) and economic forecasts obtained through internal and external sources.

To evaluate a range of possible outcomes, the Company intends to formulate various scenarios. For each scenario, the Company will derive an ECL and apply a probability weighted approach to determine the impairment allowance in accordance with the accounting standards requirements.

The Company is now in the final phase of implementation; whereby parallel run exercise is currently under process together with various level of validations before going live on 1 January 2018.

Hedge accounting:

The general hedge accounting requirements aim to simplify hedge accounting, creating a stronger link with risk management strategy and permitting hedge accounting to be applied to a greater variety of hedging instruments and risks. However, they do not explicitly address macro hedge accounting strategies, which are particularly important for Companies. As a result, IFRS 9 allows an accounting policy choice to continue to apply hedge accounting requirements of IAS 39 instead of the requirements of IFRS 9.

Based on the analysis performed to date, the Company expects to exercise the accounting policy choice to continue IAS 39 hedge accounting requirements.

28 PROSPECTIVE CHANGE IN ACCOUNTING STANDARDS (CONTINUED)

Overall expected impact:

The Company has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of IFRS 9 on 1 January 2018:

- According to transitional provisions for initial application of IFRS 9, the Company is allowed to recognise any difference between previous carrying amount under IAS 39 and the carrying amount at the beginning of the annual reporting period that includes the date of initial application in opening retained earnings. Accordingly, the overall effect is approximated to be SR 37.8 million on the date of initial application in opening retained earnings arising due to application of expected credit loss model as against Incurred loss model;
- Furthermore and as a result, the Company's Tier 1 ratio will be impacted primarily from potential increase in credit impairment provisions
- Based on the balances as at 31 December 2017, the day 1 impact of IFRS 9 (applicable from 1 January 2018) would be an estimated reduction of approximately 1.43% in Capital Adequacy Ratio which would be transitioned over five years in accordance with SAMA guidelines. Further key impact worth highlighting are as follow:
  - Gains or losses realised on the sale of equity instruments classified as FVOCI will no longer be transferred to profit or loss on sale, but instead reclassified below the line from the FVOCI reserve to retained earnings.
- The new standard also introduces extended disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Company's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Governance and controls:

The Governance structure and controls is currently under implementation in line with the IFRS 9 Guidance document applicable to Saudi Financial Institutions. These Guidelines require Financial Institutions to establish a Board approved Governance framework with detailed policies and controls, including roles and responsibilities. The Company has a centrally managed IFRS 9 programme, which includes subject matter experts on methodology, data sourcing and modelling, IT processing and reporting. The Company's work to date has covered performing an assessment of the population of financial instruments impacted by the classification and measurement requirements of IFRS 9 and developing an impairment methodology to support the calculation of the Expected Credit Loss (ECL) allowance. Specifically, during 2017 the Company conducted business model assessments and financial instrument's contractual cash flow analysis, developed its approach for assessing significant increase in credit risk ("SICR"), incorporating forward looking information, including macro-economic factors and preparing the required IT systems and process architecture. The Company has performed a full end-to-end parallel run based on 31 December 2017 data to assess procedural readiness. Overall governance of the program's implementation is through the IFRS 9 Steering Committee and includes representation from Finance, Risk and IT. The Company is in the process of enhancing its governance framework to implement appropriate validations and controls over new key processes and significant areas of judgment such as SICR determining and applying forward-looking information in multiple economic scenarios and computation of ECL.

28 PROSPECTIVE CHANGE IN ACCOUNTING STANDARDS (CONTINUED)

Caveat:

The estimated decrease in shareholders' equity includes the impact of both balance sheet classification and measurement changes and the increase to credit impairment provisions compared to those applied at 31 December 2017 under IAS 39. The assessment above is a point in time estimate and is not a forecast. The actual effect of the implementation of IFRS 9 on the Company could vary significantly from this estimate. The Company continues to refine models, methodologies and controls, and monitor developments in regulatory rule making in advance of IFRS 9 adoption on 1 January 2018. All estimates are based on the Company's current interpretation of the requirements of IFRS 9, reflecting industry guidance and discussions to date**.**

IFRS 15 Revenue from Contracts with Customers:

IFRS 15 – "Revenue from Contracts with Customers" applicable from January 1, 2018 presents a five-step model to determine when to recognize revenue, and at what amount. The application of this standard could have a significant impact on how and when revenue is recognized (except for contracts that are within the scope of the Standards on leases, insurance contracts and financial instruments), with new estimates and judgments, and the possibility of revenue recognition being accelerated or deferred. The Company is currently assessing the implication and effects of adopting IFRS 15 and the management believe that adoption of IFRS 15 will not have a material impact on the Company's financial statements.

Amendments to IFRS 2:

Amendments to IFRS 2 - "Share-based Payment", applicable for the period beginning on or after 1 January 2018. The amendments cover classification and measurement of three accounting areas, first, measurement of cash-settled share-based payments, second, classification of share-based payments settled net of tax withholdings, and third, accounting for a modification of a share-based payment from cash-settled to equity-settled. The amendment has no impact on the Company.

IFRS 16 Leases:

IFRS 16 – "Leases" applicable for the period beginning on or after 1 January 2019. The new standard eliminates the current dual accounting model for lessees under IAS 17, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, IFRS 16 proposes on-balance sheet accounting model. The Company is currently assessing the implication and effects of adopting IFRS 16

(SR'000)

29 COMPARATIVE INFORMATION

The presentation and classification of the following items in these financial statements are amended to ensure comparability with the current year.

Statement of financial position	Note	As disclosed previously	Current presentation	Adjustment
Murabaha receivable, net	29(a)	420,704	432,042	11,338
Ijara receivable, net	29(a)	2,489,780	2,537,413	47,633
Ijara mawsofa fi athemmah receivable, net	29(a)	119,725	120,218	493
Prepayments and other assets	29(a)	94,385	34,921	(59,464)
Accrued expenses and other liabilities	29(b)	50,859	40,392	(10,467)
Bank borrowings	29(b)	2,091,803	2,102,270	10,467

29(a) Reclassification of accrued income from prepayments and other assets to Murabaha, Ijara and Ijara mawsofa fi athemmah receivable.

29(b) Reclassification of accrued profit from accrued expenses and other liabilities to bank borrowings.

30 CHANGE IN ACCOUNTING POLICY

Effective from 1 January 2017, based on the circular issued by SAMA in relation to the "Accounting of Zakat and Income Tax", the Company amended its accounting policy to charge Zakat and income tax to retained earnings. Previously, Zakat and income tax was calculated quarterly and annually, and charged to the statement of profit or loss.

In addition, this change also resulted in derecognising deferred tax asset previously recognised by the Company under requirements of IAS 12.

(SR'000)

30 CHANGE IN ACCOUNTING POLICY (CONTINUED)

The change in the accounting policy has the following impacts on the line items of financial statements:

31 December 2016	As previously reported 31 December 2016	Restatement	Amount as restated at 31 December 2016
Zakat for the period – statement of profit or loss	(2,599)	2,599	-
Income tax for the period – statement of Profit or Loss	(694)	694	-
Profit for the period	105,747	3,293	109,040
Total comprehensive income	104,809	3,293	108,102
Earnings per share (SR)	1.17	0.04	1.21
Deferred tax asset	1,916	(1,916)	-
Retained earnings	193,035	(1,916)	191,119
Total assets	3,291,433	(1,916)	3,289,517
Total shareholders' equity	1,135,188	(1,916)	1,133,272
Total liabilities and shareholders' equity	3,291,433	(1,916)	3,289,517
Capital adequacy ratio:			
Total capital ratio (%)	48.70	-0.01	48.69
Tier I capital ratio (%)	42.61	-0.01	42.60

31 December 2015	As previously reported 31 December 2015	Restatement	Amount as restated at 31 December 2015
Retained earnings	165,363	(1,503)	163,860
Total shareholders' equity	1,097,879	(1,503)	1,096,376

31. SEGMENT INFORMATION

The Company objective is to provide financing for real estate leases in the Kingdom of Saudi Arabia. All assets, liabilities and operations as reflected in the statement of financial position and statement of comprehensive income belongs to the real estate financing segment.

For management purposes, the Company is organised into the following primary business segments:

Retail
These represents finance products granted to high net worth, small and medium sized businesses and individuals.

Corporate
These represents financing products granted to corporate and institutional customers. Investments in joint ventures are managed by the Corporate segment.

Head office
Head office is responsible for managing the surplus liquidity of the Company through short term market placements. It also provides support services to the business functions.

The Company's total assets and liabilities at 31 December 2017 and 31 December 2016 and its total operating income, expenses and net income for the years then ended are as follows:

(SR'000)

31. SEGMENT INFORMATION (CONTINUED)

	Retail	Corporate	Head office	Total
31 December 2017				
Revenue	**149,723**	**125,680**	**--**	**275,403**
Expenses	**60,720**	**59,079**	**52,350**	**172,149**
Segment profit (loss)	**89,003**	**66,601**	**(52,350)**	**103,254**
Total assets	**1,754,847**	**1,512,654**	**59,579**	**3,327,080**
Total liabilities	**1,104,028**	**1,004,040**	**49,716**	**2,157,784**
31 December 2016				
Revenue	139,688	134,159	--	273,847
Expenses	55,847	59,469	49,491	164,807
Segment profit (loss)	83,841	74,690	(49,491)	109,040
Total assets	1,683,399	1,549,686	56,432	3,289,517
Total liabilities	1,110,403	1,004,771	41,071	2,156,245

32. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on 11 Jumada'II 1439H Company (corresponding to 27 February 2018).

Amlak International for Real Estate Finance Company

(A Saudi Closed Joint Stock Company)

FINANCIAL STATEMENTS

31 DECEMBER 2016

EY
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)

Amlak International for Real Estate Finance Company
(A Saudi Closed Joint Stock Company)

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.

Amlak International for Real Estate Finance Company
(A Saudi Closed Joint Stock Company)

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 Department 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)	**2,030**	837
Travelling expenses	**850**	875
Communication	**683**	459
Maintenance expenses	**519**	718
Others	**2,704**	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*	*Non-current assets*	*Current liabilities*	*Non-current liabilities*	*Equity*	*Revenue*	*Profit*
		(SR '000)	*(SR '000)*	*(SR '000)*	*(SR '000)*	*(SR '000)*	*(SR '000)*	*(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 DZIT 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 period 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 DZIT would be in the region of SR 26 million for each year from 2013 to 2016.

In November 2016, a letter from DZIT 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, which has been postponed and next hearing date has not been communicated. 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 articles of association 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 IRSs SR**	**Negative fair value of IRSs 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 IRSs SR	Negative fair value of IRSs 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

	Profit bearing					
31 December 2016	***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	-	-	-	-	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)

	Profit bearing					
31 December 2015	*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	-	-	-	-	67,375	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	***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)***
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	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	*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)*
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	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 interest rate swaps.

Fair value hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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).

AMLAK أملاك
International العالمية