

**Amlak International for Real Estate  
Finance Company**

(Closed Saudi Joint Stock Company)

(Formerly known as Amlak International for Real Estate Development and Finance Company)

**FINANCIAL STATEMENTS**

**31 DECEMBER 2014**



Building a better  
working world

Ernst & Young & Co. (Public Accountants)  
6<sup>th</sup> & 14<sup>th</sup> Floors – Al Faisaliah Office Tower  
PO Box 2732  
King Fahad Road  
Riyadh 11461  
Saudi Arabia  
Registration Number: 45

Tel: +966 11 273 4740  
Fax: +966 11 273 4730

www.ey.com

**AUDITORS' REPORT TO THE SHAREHOLDERS OF  
AMLAK INTERNATIONAL FOR REAL ESTATE FINANCE COMPANY  
(CLOSED SAUDI JOINT STOCK COMPANY)  
(FORMERLY KNOWN AS AMLAK INTERNATIONAL FOR  
REAL ESTATE DEVELOPMENT AND FINANCE COMPANY)**

**Scope of audit:**


We have audited the accompanying balance sheet of Amlak International for Real Estate Finance Company (formerly known as Amlak International for Real Estate Development and Finance Company), a Closed Saudi Joint Stock Company (the "Company") as of 31 December 2014 and the related statements of income, cash flows and changes in shareholders' equity 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 provisions of Article 123 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 2014 and the results of its operations and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia;
- 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: 26 Jumad Awal 1436H  
(17 March 2015)

Amlak International for Real Estate Finance Company  
(Closed Saudi Joint Stock Company)

BALANCE SHEET

As at 31 December 2014

	Notes	2014 (SR '000)	2013 (SR '000)
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Bank balances and cash		20,255	34,475
Murabaha receivables, net	3	111,488	69,369
Ijara receivables, net	4	359,316	287,515
Ijara mawsofa fi athemmah receivables, net	5	9,975	7,109
Prepayments, accrued income and others	6	69,708	45,353
<b>TOTAL CURRENT ASSETS</b>		<b>570,742</b>	<b>443,821</b>
<b>NON-CURRENT ASSETS</b>			
Murabaha receivables, net	3	226,163	141,673
Ijara receivables, net	4	1,455,948	1,087,833
Ijara mawsofa fi athemmah receivables, net	5	104,847	72,283
Investment in joint ventures	7	165,115	103,914
Available for sale investment	8	12,000	7,306
Property and equipment	10	23,799	3,895
<b>TOTAL NON-CURRENT ASSETS</b>		<b>1,987,872</b>	<b>1,416,904</b>
<b>TOTAL ASSETS</b>		<b>2,558,614</b>	<b>1,860,725</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable and accruals	11	44,493	77,704
Provision for zakat and income tax	12	3,213	2,625
Dividend payable	13	24,833	-
Bank borrowings	14	446,773	244,958
<b>TOTAL CURRENT LIABILITIES</b>		<b>519,312</b>	<b>325,287</b>
<b>NON-CURRENT LIABILITIES</b>			
Bank borrowings	14	995,937	512,542
Employees' terminal benefits		5,582	3,500
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>1,001,519</b>	<b>516,042</b>
<b>TOTAL LIABILITIES</b>		<b>1,520,831</b>	<b>841,329</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	15	900,000	900,000
Statutory reserve	16	20,466	11,939
Retained earnings		121,044	107,457
Investment revaluation reserve	8	-	2,308
Cash flow hedge reserve	17	(3,727)	(2,308)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>1,037,783</b>	<b>1,019,396</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>2,558,614</b>	<b>1,860,725</b>

The attached notes 1 to 29 form part of these financial statements

Amlak International for Real Estate Finance Company  
(Closed Saudi Joint Stock Company)

STATEMENT OF INCOME

For the year ended 31 December 2014

	Notes	2014 (SR '000)	2013 (SR '000)
<b>INCOME</b>			
Income from Murabaha contracts		26,140	22,880
Income from Ijara contracts		126,583	91,481
Income from Ijara mawsofa fi athemmah contracts		6,227	4,620
Processing and appraisal fees	18	6,983	6,267
<b>INCOME FROM MURABAHA, IJARA, ISTASNA AND IJARA MAWSOFA FI ATHEMMAH</b>			
		165,933	125,248
<i>Less:</i>			
Borrowing facility cost and charges	14	(34,311)	(17,246)
<b>NET INCOME FROM MURABAHA, IJARA, ISTASNA AND IJARA MAWSOFA FI ATHEMMAH</b>			
		131,622	108,002
Share of income in joint ventures	7.1	21,331	18,311
Realised gain on available for sale investment	8	3,456	-
Arrangement fees		1,068	-
<b>TOTAL OPERATING INCOME</b>			
		157,477	126,313
<b>EXPENSES</b>			
Salaries and employees related expenses	9	37,450	30,279
General and administration expenses	19	12,543	7,407
Selling and marketing expenses	20	8,822	7,990
Depreciation	10	1,031	1,353
Provision for credit losses		9,322	6,611
<b>TOTAL OPERATING EXPENSES</b>			
		69,168	53,640
<b>NET INCOME FOR THE YEAR</b>			
		88,309	72,673
<b>BASIC AND DILUTED EARNINGS PER SHARE IN SAUDI RIYALS</b>			
Attributable to net income for the year	21	0.98	0.81

The attached notes 1 to 29 form part of these financial statements

Amlak International for Real Estate Finance Company  
(Closed Saudi Joint Stock Company)

STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	Notes	2014 (SR '000)	2013 (SR '000)
<b>OPERATING ACTIVITIES</b>			
Net income for the year		88,309	72,673
Adjustments for:			
Depreciation	10	1,031	1,353
Borrowing facility cost and charges		34,311	17,246
Employees' terminal benefits, net		2,082	774
Provision for credit losses		9,322	6,611
Realised gain on available for sale investment	8	(3,456)	-
Share of income in joint ventures	7	(21,331)	(18,311)
<i>Operating cash flows before working capital changes</i>		<b>110,268</b>	<b>80,346</b>
Changes in operating assets and liabilities:			
Murabaha receivables		(128,515)	54,766
Ijara receivables		(446,788)	(427,138)
Istasna receivable		-	4,560
Ijara mawsofa fi athemmah receivables		(35,974)	(25,969)
Prepayments, accrued income and others		(24,355)	(26,647)
Accounts payable and accruals		(36,147)	15,828
Cash used in operation		<b>(561,511)</b>	<b>(324,254)</b>
Borrowing facility cost and charges paid		<b>(32,794)</b>	<b>(16,037)</b>
Zakat and income tax paid	12	<b>(2,449)</b>	<b>(1,723)</b>
Net cash used in operating activities		<b>(596,754)</b>	<b>(342,014)</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of property and equipment	10	<b>(20,935)</b>	<b>(537)</b>
Proceeds from investments in joint ventures		97,376	71,755
Investments in joint ventures		(137,246)	(68,605)
Proceeds from available for sale investment		8,454	-
Investments in available for sale investment	8	<b>(12,000)</b>	-
Net cash (used in) from investing activities		<b>(64,351)</b>	<b>2,613</b>
<b>FINANCING ACTIVITIES</b>			
Proceeds from bank borrowings		1,054,500	598,000
Repayment of bank borrowings		(369,290)	(227,667)
Dividend paid		(38,325)	-
Net cash from financing activities		<b>646,885</b>	<b>370,333</b>
<b>(DECREASE) INCREASE IN BANK BALANCES AND CASH</b>		<b>(14,220)</b>	<b>30,932</b>
Bank balances and cash at beginning of the year		<b>34,475</b>	<b>3,543</b>
<b>BANK BALANCES AND CASH AT END OF THE YEAR</b>		<b>20,255</b>	<b>34,475</b>
<b><i>Supplementary cash flow information</i></b>			
Income from murabaha, ijara, istasna and ijara mawsofa fi athemmah received		<b>145,573</b>	<b>117,021</b>

The attached notes 1 to 29 form part of these financial statements

Amlak International for Real Estate Finance Company  
(Closed Saudi Joint Stock Company)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2014

	<i>Capital</i> <i>(SR '000)</i>	<i>Statutory</i> <i>reserve</i> <i>(SR '000)</i>	<i>Retained</i> <i>earnings</i> <i>(SR '000)</i>	<i>Investment</i> <i>revaluation</i> <i>reserve</i> <i>(SR '000)</i>	<i>Cash flow</i> <i>hedge</i> <i>reserve</i> <i>(SR '000)</i>	<i>Total</i> <i>(SR '000)</i>
<b><i>Year ended 31 December 2014</i></b>						
Balance as at 1 January 2014	900,000	11,939	107,457	2,308	(2,308)	1,019,396
Net income for the year	-	-	88,309	-	-	88,309
Dividends (note 13)	-	-	(63,158)	-	-	(63,158)
Zakat and income tax	-	-	(3,037)	-	-	(3,037)
Transfer to statutory reserve	-	8,527	(8,527)	-	-	-
Change in fair value	-	-	-	(2,308)	(1,419)	(3,727)
<b><i>Balance as at 31 December 2014</i></b>	<b><u>900,000</u></b>	<b><u>20,466</u></b>	<b><u>121,044</u></b>	<b><u>-</u></b>	<b><u>(3,727)</u></b>	<b><u>1,037,783</u></b>
<b><i>Year ended 31 December 2013</i></b>						
Balance as at 1 January 2013	900,000	4,916	44,247	464	(4,764)	944,863
Net income for the year	-	-	72,673	-	-	72,673
Zakat and income tax	-	-	(2,440)	-	-	(2,440)
Transfer to statutory reserve	-	7,023	(7,023)	-	-	-
Change in fair value	-	-	-	1,844	2,456	4,300
<b><i>Balance as at 31 December 2013</i></b>	<b><u>900,000</u></b>	<b><u>11,939</u></b>	<b><u>107,457</u></b>	<b><u>2,308</u></b>	<b><u>(2,308)</u></b>	<b><u>1,019,396</u></b>

<i>Analysis of retained earnings</i>	<i>Saudi and GCC</i> <i>Shareholders</i> <i>(SR' 000)</i>	<i>Non-Saudi</i> <i>shareholders</i> <i>(SR' 000)</i>	<i>Total</i> <i>(SR' 000)</i>
<b><i>Year ended 31 December 2014</i></b>			
Balance as at 1 January 2014	104,506	2,951	107,457
Net income for the year	85,465	2,844	88,309
Dividends	(61,121)	(2,037)	(63,158)
Zakat accrued (note 12)	(2,398)	-	(2,398)
Income tax accrued (note 12)	-	(639)	(639)
Transfer to statutory reserve	(8,252)	(275)	(8,527)
<b><i>Balance as at 31 December 2014</i></b>	<b><u>118,200</u></b>	<b><u>2,844</u></b>	<b><u>121,044</u></b>
<b><i>Year ended 31 December 2013</i></b>			
Balance as at 1 January 2013	42,900	1,347	44,247
Net income for the year	70,333	2,340	72,673
Zakat accrued (note 12)	(1,930)	-	(1,930)
Income tax accrued (note 12)	-	(510)	(510)
Transfer to statutory reserve	(6,797)	(226)	(7,023)
<b><i>Balance as at 31 December 2013</i></b>	<b><u>104,506</u></b>	<b><u>2,951</u></b>	<b><u>107,457</u></b>

The attached notes 1 to 29 form part of these financial statements

# Amlak International for Real Estate Finance Company (Closed Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

### 1 ACTIVITIES

Amlak International for Real Estate Finance Company (formerly known as Amlak International for Real Estate Development and Finance Company) ("Amlak", the "Company") is a closed Saudi 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).

The objectives of the Company were to provide real estate finance and lease finance for fixed and moveable assets. They also included the purchase and lease of buildings and land to construct buildings to be sold or leased subsequently, as well as construction and maintenance of infrastructure, roads and airports. 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).

The Saudi Arabian Monetary Agency ("SAMA") has issued the Implementing Regulations of The Law on Supervision of Finance Companies which was published on 24 February 2013 following the Financial Lease Law and Law on Supervision of Finance Companies (the "laws") published on 27 August 2012. These laws have given existing companies a grace period of two years to align their current position with the new law's requirements. The Company has submitted its plan and the application for license to which SAMA has accorded its approval. Under the required law and upon obtaining the license, the Company will be required to prepare its financial statements under International Financial Reporting Standards ("IFRS"). Upon IFRS adoption, the Company will be required to comply with the requirements of IFRS 1 - First-time Adoption of International Financial Reporting Standards.

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:

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

### 2 SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia. The significant accounting policies adopted are as follows:

#### *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.

Amlak International for Real Estate Finance Company  
(Closed Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2014

2 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 Murabaha placements, Murabaha, Ijara and Istasna 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 for Murabaha, Ijara and Ijara mawsofa fi athemmah receivables that are recognised as an adjustment to the EPR on these receivables. When it is unlikely that receivable will be drawn down, the commitment fees are recognised over the commitment period on a straight line basis.

*Investment in joint ventures*

The Company's interests in jointly controlled entities ("JV") are accounted for using the equity method of accounting and are initially recognised at cost.

The Company's share of its JVs' post-acquisition income or losses is recognised in the income statement, 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. Any decline, other than temporary, in the value of available for sale investments is charged to the statement of income.

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



Amlak International for Real Estate Finance Company  
(Closed Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2014

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

*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 income. The losses arising from impairment are recognised in the statement of income.

Following are the major financial assets as of the balance sheet 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.

(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.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Impairment of financial assets*

The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group 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 group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group 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 income.

*Derecognition of financial assets*

A financial asset (or, where applicable, a part of a financial asset or part of a group 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.

*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 income statement 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 income.

Amlak International for Real Estate Finance Company  
(Closed Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2014

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

*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 income.

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*

Provision is made for amounts payable under the Saudi Arabian labour law applicable to employees' accumulated periods of service at the balance sheet date. The liability is calculated as the current value of the vested benefits to which the employee is entitled, should the employee leave at the balance sheet date.

*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 income, 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 income 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 administration expenses.

Amlak International for Real Estate Finance Company  
(Closed Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2014

2 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 balance sheet date. All differences are taken to the statement of income. The gain or losses on foreign currency transactions are included in the statement of income during the year.

*Zakat and income tax*

The Company's Saudi 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 "DZIT") as applicable in the Kingdom of Saudi Arabia. An estimate of zakat and income tax arising there from is provided by a charge to retained earnings and all payments of zakat and income tax made on behalf of the shareholders are deducted from the first available dividends.

*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.

3 MURABAHA RECEIVABLES, NET

	2014 (SR '000)	2013 (SR '000)
Gross Murabaha sale contracts receivables	396,218	243,396
Less: Unearned income	(53,773)	(29,466)
Murabaha contracts receivables, net	342,445	213,930
Less: Provision for Murabaha receivable losses	(4,794)	(2,888)
Murabaha receivables, net	337,651	211,042
Current portion of Murabaha receivables, net	113,071	70,318
Less: Provision for Murabaha receivable losses	(1,583)	(949)
Current portion of Murabaha receivables, net	111,488	69,369
Non current portion of Murabaha receivables	229,374	143,612
Less: Provision for Murabaha receivable losses	(3,211)	(1,939)
Non-current portion of Murabaha receivables, net	226,163	141,673
Murabaha receivables, net	337,651	211,042

Amlak International for Real Estate Finance Company  
(Closed Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2014

3 MURABAHA RECEIVABLES, NET (continued)

The minimum future principal payments on the Murabaha sale contracts receivable as of 31 December are summarised below:

	<i>Principal</i>	<i>Unearned income</i>	<i>Total</i>
	<i>(SR'000)</i>		
<b><u>2014</u></b>			
2015	113,071	17,755	130,826
2016	126,738	19,901	146,639
2017	82,027	12,880	94,907
2018	17,140	2,691	19,831
2019 onwards	3,469	546	4,015
	<u>342,445</u>	<u>53,773</u>	<u>396,218</u>
<b><u>2013</u></b>			
2014	70,318	13,364	83,682
2015	76,081	9,918	85,999
2016	49,241	4,226	53,467
2017	10,289	1,292	11,581
2018 onwards	8,001	666	8,667
	<u>213,930</u>	<u>29,466</u>	<u>243,396</u>

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

	<b>2014</b>	<b>2013</b>
	<b>(SR '000)</b>	<b>(SR '000)</b>
Balance at beginning of the year	2,888	3,359
Provision (reversal) for the year	1,906	(471)
	<u>4,794</u>	<u>2,888</u>

Amlak International for Real Estate Finance Company  
(Closed Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2014

4 IJARA RECEIVABLES, NET

	2014 (SR '000)	2013 (SR '000)
Gross Ijara receivables	2,382,876	1,796,472
Less: Unearned income	(541,919)	(402,303)
Ijara receivables, net	<u>1,840,957</u>	<u>1,394,169</u>
Less: Provisions for Ijara receivable losses	(25,693)	(18,821)
Ijara receivables, net	<u><u>1,815,264</u></u>	<u><u>1,375,348</u></u>
Current portion of Ijara receivables, net	363,864	291,154
Less: Provision for Ijara receivable losses	(4,548)	(3,639)
Current portion of Ijara receivables, net	<u>359,316</u>	<u>287,515</u>
Non-current portion of receivables	1,477,093	1,103,015
Less: Provision for Ijara receivable losses	(21,145)	(15,182)
Non-current portion of Ijara receivables, net	<u>1,455,948</u>	<u>1,087,833</u>
Ijara receivables, net	<u><u>1,815,264</u></u>	<u><u>1,375,348</u></u>

The minimum future principal payments on the Ijara receivables as of 31 December are summarised below:

	<i>Principal</i>	<i>Unearned income</i>	<i>Total</i>
		(SR'000)	
<u>2014</u>			
2015	363,864	107,110	470,974
2016	444,919	130,970	575,889
2017	362,219	106,626	468,845
2018	279,803	82,365	362,168
2019 onwards	390,152	114,848	505,000
	<u>1,840,957</u>	<u>541,919</u>	<u>2,382,876</u>
<u>2013</u>			
2014	291,154	97,938	389,092
2015	274,360	79,067	353,427
2016	223,363	56,717	280,080
2017	172,541	40,084	212,625
2018 onwards	432,751	128,497	561,248
	<u>1,394,169</u>	<u>402,303</u>	<u>1,796,472</u>

Amlak International for Real Estate Finance Company  
(Closed Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2014

4 IJARA RECEIVABLES, NET (continued)

The movement in provision for Ijara receivable losses was as follows:

	2014 (SR '000)	2013 (SR '000)
Balance at beginning of the year	18,821	12,144
Provision for the year	6,872	6,677
	<u>25,693</u>	<u>18,821</u>

5 IJARA MAWSOFA FI ATHEMMAH RECEIVABLES, NET

	2014 (SR '000)	2013 (SR '000)
Gross Ijara mawsofa fi athemmah receivables	195,294	137,897
Less: Unearned income	(78,842)	(57,419)
Ijara mawsofa fi athemmah receivables, net	116,452	80,478
Less: Provisions for Ijara mawsofa fi athemmah receivable losses	(1,630)	(1,086)
Ijara mawsofa fi athemmah receivables, net	<u>114,822</u>	<u>79,392</u>
Current portion of Ijara mawsofa fi athemmah receivables, net	10,101	7,199
Less: Provision for Ijara receivable losses	(126)	(90)
Current portion of Ijara mawsofa fi athemmah receivables, net	<u>9,975</u>	<u>7,109</u>
Non current portion of Ijara mawsofa fi athemmah receivables	106,351	73,279
Less: Provision for Ijara mawsofa fi athemmah receivable losses	(1,504)	(996)
Non-current portion of Ijara mawsofa fi athemmah receivables, net	<u>104,847</u>	<u>72,283</u>
Ijara mawsofa fi athemmah receivables, net	<u>114,822</u>	<u>79,392</u>

Amlak International for Real Estate Finance Company  
(Closed Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2014

**5 IJARA MAWSOFA FI ATHEMMAH RECEIVABLES, NET (continued)**

The minimum future principal payments on the Ijara mawsofa fi athemmah receivables as of 31 December are summarised below:

	<i>Principal</i> (SR '000)	<i>Unearned income</i> (SR '000)	<i>Total</i> (SR '000)
<u>2014</u>			
2015	10,101	6,839	16,940
2016	14,690	9,946	24,636
2016	14,203	9,616	23,819
2018	13,005	8,804	21,809
2019 onwards	64,453	43,637	108,090
	<u>116,452</u>	<u>78,842</u>	<u>195,294</u>
<u>2013</u>			
2014	7,199	5,378	12,577
2015	7,443	5,241	12,684
2016	7,196	5,279	12,475
2017	6,589	4,818	11,407
2018 onwards	52,051	36,703	88,754
	<u>80,478</u>	<u>57,419</u>	<u>137,897</u>

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

	2014 (SR '000)	2013 (SR '000)
Balance at beginning of the year	1,086	681
Provision for the year	544	405
	<u>1,630</u>	<u>1,086</u>

**6 PREPAYMENTS, ACCRUED INCOME AND OTHERS**

	2014 (SR '000)	2013 (SR '000)
Receivable from Joint Ventures (see note below)	33,040	23,812
Accrued income	31,143	17,766
Accrued profit on swap	1,208	666
Prepaid rent	861	917
Others	3,456	2,192
	<u>69,708</u>	<u>45,353</u>

During the year, the Company has exited from certain JV arrangements (see note 7). 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.



Amlak International for Real Estate Finance Company  
(Closed Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2014

7 INVESTMENT IN JOINT VENTURES

		2014 (SR '000)	2013 (SR '000)
<u>Joint ventures</u>	<u>Amlak's share</u>		
a) Dar wa Emar, Rahba	90%	28,527	20,979
b) Dar wa Emar, Olaya	50%	27,175	13,875
c) Teraz Arabia	70%	24,432	-
d) AbdulAziz Al Qassim, Malga III	60%	15,613	-
e) Ibrahim Al Fozan	60%	12,764	-
f) Albani Development Company	50%	11,874	8,301
g) Saudi Kayan II	60%	8,542	-
h) Tharaa Real Estate Investment	50%	8,487	7,178
i) Abdul Aziz Al Qassim, Al-Aqeeq	60%	8,122	16,493
j) Al Masharia Al Oula	60%	6,467	-
k) Saudi Kyan III	60%	5,437	-
l) AbdulAziz Al Qassim, Malga II	50%	5,258	-
m) Argan	50%	1,871	21,744
n) Saudi Kayan I	50%	546	14,099
o) Maskan Arabia	70%	-	1,245
		<u>165,115</u>	<u>103,914</u>

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.

7.1 *Share of income and (expenses) of joint ventures*

The Company records its share of income upon transfer of title deeds of the residential units by the joint ventures to the customers. A summary of Company's share of income (expenses) of joint ventures is set out below:

<u>Joint ventures</u>	2014 (SR '000)	2013 (SR '000)
Saudi Kayan I	7,619	-
Abdul Aziz Al Qassim, Al-Aqeeq	3,350	-
Argan	2,900	6,000
Abdul Aziz Al Qassim, Malga I	2,267	-
Dar Wa Emar, Rahba	1,992	-
Albani Development Company	1,640	-
Ibrahim Al Fozan	752	-
Abdul Aziz Al Qassim, Malga II	728	-
Teraz Arabia	91	4,558
Maskan Arabia	(8)	3,000
Al Hakmiya Investment	-	4,753
	<u>21,331</u>	<u>18,311</u>

No new investments have been made by the Company after 7 November 2014 to comply with the laws. Existing portfolio will remain in the Company till maturity. However disbursements for the investments already booked for the ongoing projects will continue to be booked by the Company.

Amlak International for Real Estate Finance Company  
(Closed Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2014

7 INVESTMENT IN JOINT VENTURES (continued)

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 in aggregate:

	<i>Current assets</i> (SR '000)	<i>Non- current assets</i> (SR '000)	<i>Current liabilities</i> (SR '000)	<i>Non- current liabilities</i> (SR '000)	<i>Equity</i> (SR '000)	<i>Revenue</i> (SR '000)	<i>Profit</i> (SR '000)
<u>2014</u>	<u>125,250</u>	<u>270,119</u>	<u>49,168</u>	<u>22,507</u>	<u>323,694</u>	<u>138,158</u>	<u>27,540</u>
<u>2013</u>	<u>62,332</u>	<u>170,959</u>	<u>28,298</u>	<u>22,022</u>	<u>182,971</u>	<u>59,490</u>	<u>12,000</u>

8 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. At 31 December 2013, available for sale investment represents investment in Al Rabi'a Real Estate Fund, a close ended real estate fund managed by Falcom Financial Services.

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

	<b>2014</b> (SR '000)	<b>2013</b> (SR '000)
<i>Cost:</i>		
At beginning of the year	4,998	4,998
Additions during the year	12,000	-
Disposals during the year	(4,998)	-
At end of the year	<u>12,000</u>	<u>4,998</u>
<i>Unrealised gain:</i>		
At beginning of the year	2,308	464
Changes in fair value during the year	1,148	1,844
Realised gain during the period / year	(3,456)	-
At end of the year	<u>-</u>	<u>2,308</u>
<i>Net carrying amount</i>	<u>12,000</u>	<u>7,306</u>

Amlak International for Real Estate Finance Company  
(Closed Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2014

9 RELATED PARTY TRANSACTIONS

Following are the details of major related party transactions/balances during the year:

<i>Related party</i>	<i>Nature of transactions</i>	<b>2014</b> <b>(SR '000)</b>	<b>2013</b> <b>(SR '000)</b>
Shareholder	Bank borrowing	413,000	197,000
	Notional amount of Profit Rate Swaps (PRS)	185,000	110,000
	Financing	730	1,203
	Cash at bank	616	15,625
	Borrowing facility cost and charges	9,252	5,534
	PRS cost paid	431	316
	Profit earned on financing	65	94
Affiliates (common directorship)	Rent expense	1,557	1,380
	Security and other expenses	110	123
	Available for sale investment	12,000	-
	Arrangement fees	1,068	-
Senior management	Salaries and benefits	6,970	6,447
	Financing and advances	2,411	2,415
	Board fee and expenses	1,903	1,801

Amlak International for Real Estate Finance Company  
(Closed Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2014

10 PROPERTY AND EQUIPMENT

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

Leasehold improvements Furniture and fixtures	Shorter of 10 years or lease period 6 years	Office equipment Information technology equipment	5 years 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)	2014 Total (SR'000)	2013 Total (SR'000)
Balance at beginning of the year	-	1,917	383	1,898	12,319	798	17,315	16,778
Additions during the year	18,655	-	11	160	242	1,867	20,935	537
Balance at end of the year	18,655	1,917	394	2,058	12,561	2,665	38,250	17,315
<i>Depreciation:</i>								
Balance at beginning of the year	-	823	341	1,544	10,712	-	13,420	12,067
Charge for the year	-	155	7	80	789	-	1,031	1,353
Balance at end of the year	-	978	348	1,624	11,501	-	14,451	13,420
<i>Net book value:</i>								
At 31 December 2014	18,655	939	46	434	1,060	2,665	23,799	
At 31 December 2013	-	1,094	42	354	1,607	798		3,895

Work in progress as at 31 December 2014 represents the amount paid for leasehold improvement of new Riyadh branch and system enhancement.

Amlak International for Real Estate Finance Company  
(Closed Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2014

11 ACCOUNTS PAYABLE AND ACCRUALS

	2014 (SR '000)	2013 (SR '000)
Amounts due to Murabaha and Ijara customers	17,426	8,872
Accrued salaries and employee related expenses	7,838	5,921
Processing fee deferred	5,816	4,845
Mark to market reserve on Swap	3,727	2,308
Accrued profit on borrowing	4,243	2,726
Accrued expenses	3,353	2,850
Financing to customers pending disbursement	6	48,908
Others	2,084	1,274
	<u>44,493</u>	<u>77,704</u>

12 ZAKAT AND INCOME TAX

a) Zakat

*Charge for the year*

The zakat charge of SR 2,398 thousands (2013: SR 1,930 thousands) for the year consists of current year provision and is based on the following:

	2014 (SR '000)	2013 (SR '000)
Shareholders' equity	900,000	900,000
Borrowings	1,442,710	757,500
Opening provisions and adjustments	26,295	22,795
Book value of fixed assets	(16,716)	(7,743)
Net deductions	<u>(2,476,969)</u>	<u>(1,792,491)</u>
	(124,680)	(119,939)
Adjusted net income for the year	<u>99,106</u>	<u>79,740</u>
Zakat base	<u>99,106</u>	<u>79,740</u>

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:

	2014 (SR '000)	2013 (SR '000)
Zakat base attributable to 96.8% ( 2013: 96.8%) Saudi and GCC shareholders	<u>95,913</u>	<u>77,189</u>
Zakat @ 2.5%	<u>2,398</u>	<u>1,930</u>

Amlak International for Real Estate Finance Company  
(Closed Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2014

12 ZAKAT AND INCOME TAX (continued)

a) Zakat (continued)

*Movement in provision*

	2014 (SR '000)	2013 (SR '000)
Balance at beginning of the year	2,080	1,526
Provided during the year	2,398	1,930
Payment during the year	(1,934)	(1,376)
	2,544	2,080

b) Income tax

*Charge for the year*

Income tax charge for the year amounting to SR 639 thousand (2013: SR 510 thousand) has been calculated based on adjusted net income for the year ended 31 December as follows:

	2014 (SR '000)	2013 (SR '000)
Adjusted net income	99,106	79,740
Adjusted net income attributable to Non-Saudi shareholders 3.2%	3,193	2,552
Net income subject to tax	3,193	2,552
Income tax payable @ 20%	639	510

*Movement in provision*

	2014 (SR '000)	2013 (SR '000)
Balance at beginning of the year	545	382
Provided during the year	639	510
Payment during the year	(515)	(347)
	669	545

c) Status of assessments

The Company has submitted the tax/zakat declarations for the years ended 31 December 2007 through 2013 with the Department of Zakat and Income Tax ("DZIT"). The DZIT 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. Further, during 2013, the DZIT has raised an interim assessment order in respect of the financial year ended 31 December 2012 disallowing net investment in finance leases amounting to SR 1.3 billion from the Company's zakat base.

The Company's appeal with the Preliminary Appeal Committee against the DZIT'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. The Company has filed an appeal before the Higher Appeal Committee.

Amlak International for Real Estate Finance Company  
(Closed Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2014

**25 FAIR VALUES OF FINANCIAL INSTRUMENTS**

Financial instruments comprise financial assets and financial liabilities. The Company's financial assets consist of bank balances and cash, Murabaha receivables, Ijara receivables, Istisna receivables and Ijara mawsofa fi athemmah receivables. Its financial liabilities consist of bank borrowings, accounts payable and accruals.

The fair values of financial instruments are not materially different from their carrying values.

**26 KEY SOURCES OF ESTIMATION UNCERTAINTY**

*Provision for Murabaha, Ijara, Istisna and Ijara mawsofa fi athemmah receivables*

An estimate of the collectible amount of Murabaha, Ijara, Istisna and Ijara mawsofa fi athemmah receivables is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and an allowance applied according to the length of time past due, based on historical recovery rates.

Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the statement of income. Based on the above and the historical performance of the company's receivable, it is management's estimate that the uncertainty is limited.

*Useful lives of property and equipment*

The Company's management determines the estimated useful lives of its property and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear.

Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

**27 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 2014		31 December 2013	
	Total capital ratio %	Tier I capital ratio %	Total capital ratio %	Tier I capital ratio %
Capital adequacy ratio	50.33	45.28	69.32	61.39

**28 COMPARATIVE FIGURES**

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

**29 APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements have been approved by the Board of Directors on 26 Jamad Awal 1436H (corresponding to 17 March 2015).