BIDAYA HOME FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
FINANCIAL STATEMENTS
For the period from 31 March 2015
(Date of Ministerial Resolution)
to 31 December 2016
together with the
INDEPENDENT AUDITORS' REPORT

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

INDEPENDENT AUDITORS' REPORT

To: **The Shareholders of Bidaya Home Finance Company**
(A Saudi Closed Joint Stock Company)
Riyadh, Kingdom of Saudi Arabia

We have audited the accompanying financial statements of **Bidaya Home Finance Company** - a Saudi Closed Joint Stock Company (the "Company") which comprise the statement of financial position as at 31 December 2016 and the related statement of profit or loss and other comprehensive income, cash flows and changes in shareholders' equity for the period from 31 March 2015 to 31 December 2016 and the attached notes 1 through 26 which form an integral part of these financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in compliance with 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. Management has provided us with all the information and explanations that we require relating to our audit of these financial statements.

Auditors' responsibilities

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the Company's preparation and fair presentation of the financial statements 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG

Opinion

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

i) present fairly, in all material respects, the financial position of **Bidaya Home Finance Company** ("the Company") as at 31 December 2016 and of its results of operations and its cash flows for the period from 31 March 2015 to 31 December 2016 in accordance with International Financial Reporting Standards; and

ii) comply with the requirements of the Regulations for Companies and the Company's by-laws with respect to the preparation and presentation of the financial statements.

Emphasis of matter:

We draw attention to note 2(a) to the financial statements, which describes the fact that these financial statements are prepared in accordance with International Financial Reporting Standards and not in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia as issued by the Saudi Organization for Certified Public Accountants.

For KPMG Al Fozan & Partners
Certified Public Accountants

Khalil Ibrahim Al Sedais
Licence No. 371

Riyadh on: 25 Jumada'I 1438H
Corresponding to: 22 February 2017

BIDAYA HOME FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF FINANCIAL POSITION
As at 31 December 2016
(Saudi Arabian Riyals in '000)

	Notes	2016
ASSETS		
Cash and bank balances	4	**227,014**
Available-for-sale investment	5	**78,096**
Held to maturity investments	6	**203,547**
Ijara receivables, net	7	**351,150**
Deposits, prepayments and other receivables	8	**4,418**
Intangible assets, net	9	**2,333**
Property and equipment, net	10	**7,429**
Total assets		**873,987**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accrued expenses and other current liabilities	11	**20,261**
Accrued Zakat	12	**12,168**
Provision for employees' end of service benefits		**654**
Total liabilities		**33,083**
Share capital	13	**900,000**
Fair value reserve on available-for-sale investment	5	**2,916**
Accumulated losses		**(62,012)**
Shareholders' equity		**840,904**
Total liabilities and shareholders' equity		**873,987**

The accompanying notes from 1 to 26 form an integral part of these financial statements.

BIDAYA HOME FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the period from 31 March 2015 to 31 December 2016
(Saudi Arabian Riyals in '000)

	Notes	**For the period from 31 March 2015 to 31 December 2016**
REVENUE		
Ijara income		**8,752**
Fee income		**449**
Total revenue		**9,201**
OPERATING EXPENSES		
General and administrative expenses	*14*	**40,401**
Selling and marketing expenses	*15*	**11,406**
Depreciation	*10*	**1,324**
Amortization	*9*	**544**
Provision for Ijara receivables losses	*7*	**4,445**
Total operating expense for the period		**58,120**
Operating loss for the period		**(48,919)**
Special commission income	*6.2*	**22,175**
Gain on sale of available-for-sale investment		**108**
Pre-operating expenses	*16*	**(23,208)**
Net loss for the period before Zakat		**(49,844)**
Zakat charge for the period	*12*	**(12,168)**
Net loss for the period		**(62,012)**
OTHER COMPREHENSIVE INCOME		
Items that are or may be reclassified to profit or loss in subsequent periods		
Net change in fair value of available-for-sale investment	*5*	**2,916**
Total comprehensive loss for the period		**(59,096)**
Loss per share – basic and diluted (in SR)	*17*	**(0.69)**

The accompanying notes from 1 to 26 form an integral part of these financial statements.

BIDAYA HOME FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF CASH FLOWS
For the period from 31 March 2015 to 31 December 2016
(Saudi Arabian Riyals in '000)

	Notes	**For the period from 31 March 2015 to 31 December 2016**
Cash flows from operating activities:		
Net loss for the period before Zakat		**(49,844)**
Non-cash adjustments to reconcile net loss for the period before Zakat to net cash used in operating activities:		
Depreciation	*10*	**1,324**
Amortization	*9*	**544**
Loss on disposal of property and equipment		**34**
Provision for employees' end of service benefits		**654**
Provision for Ijara receivable losses	*7*	**4,445**
Gain on sale of available-for-sale investment		**(108)**
		(42,951)
Increase in operating assets:		
Ijara receivables		**(355,595)**
Deposits, prepayments and other receivables		**(4,418)**
Increase in operating liabilities:		
Accrued expenses and other current liabilities		**20,261**
Net cash used in operating activities		**(382,703)**
Cash flows from investing activities		
Purchase of property and equipment	*10*	**(8,790)**
Proceeds from disposal of property and equipment		**3**
Purchase of intangible assets	*9*	**(2,877)**
Purchase of held to maturity investments		**14,665,564**
Proceeds from disposal of held to maturity investments		**(14,665,564)**
Purchase of available-for-sale investment		**(200,180)**
Proceeds from disposal of available-for-sale investment	*5.1*	**125,108**
Net cash used in investing activities		**(86,736)**
Cash flows from financing activities		
Proceeds from issuance of share capital		**900,000**
Net cash generated from financing activities		**900,000**
Net increase in cash and cash equivalents		**430,561**
Cash and cash equivalents at end of the period	*18*	**430,561**

The attached notes 1 to 26 form an integral part of these financial statements.

BIDAYA HOME FINANCE
(A Saudi Closed Joint Stock Company)
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the period from 31 March 2015 to 31 December 2016
(Saudi Arabian Riyals in '000)

	Share capital	Fair value reserve on available-for-sale investment	Accumulated losses	Total
Issuance of share capital	900,000	--	--	900,000
Net loss for the period	--	--	(62,012)	(62,012)
Net change in fair value of available-for-sale investment	--	2,916	--	2,916
Total comprehensive loss for the period	--	2,916	(62,012)	(59,096)
Balance at 31 December 2016	**900,000**	**2,916**	**(62,012)**	**840,094**

The attached notes 1 to 26 form an integral part of these financial statements.

1. THE COMPANY AND THE NATURE OF OPERATIONS

Bidaya Home Finance Company (the "Company") is a Saudi closed joint stock company established under the Regulations for Companies in the Kingdom of Saudi Arabia. The Company operates under Commercial Registration No. 1010432564 issued in Riyadh on 25 Jumada II 1436H (corresponding to 14 April 2015). The Company was granted a full license by Saudi Arabian Monetary Authority (SAMA) to operate as a mortgage finance company vide license number 41/ش ع /201512 dated 3 Rabi I 1437H (corresponding to 14 December 2015).

The objectives of the Company are to provide home financing to consumers for the purchase of homes (new homes, ready homes and off plan construction homes) and providing finance to home owners against security of their homes.

The registered office of the Company is on the 20th Floor of Ibdeh tower located on Olaya near Malik Fahad Road, Kingdom of Saudi Arabia with its postal address as follows:

Bidaya Home Finance Company
P.O. Box 93898
Riyadh 11683
Kingdom of Saudi Arabia

2. BASIS OF PREPARATION

a) *Statement of compliance*

Article 71 to the Implementing regulations of the Finance Companies and Control Law requires a finance company to prepare financial statements in accordance with International Financial Reporting Standards (IFRS). Accordingly, these financial statements have been prepared in accordance with the requirements of the International Financial Reporting Standards as issued by International Accounting Standards Board (IASB) and are not in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia. Since these are first set of financial statements of the Company for the period from 31 March 2015 to 31 December 2016, accordingly no comparative statement has been presented in these financial statements.

Pursuant to the Company's Articles of Association / By-laws, the first financial reporting period of the Company shall start from the date of Ministerial Resolution announcing the incorporating of the Company i.e. 11 Jumada II 1436H (corresponding to 31 March 2015) and end on 31 December 2016.

b) *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.

c) *Changes to the Regulation for Companies*

The new Regulations for Companies issued through Royal Decree M/3 on 11 November 2015 (hereinafter referred as "The Law") has come into force on 2 May 2016. The Company has to amend its By-Laws to align with The Law, if it is required. In such case, the Company shall present the amended By-Laws to its shareholders in their Extraordinary General Assembly meeting for ratification. The full compliance with the Law should be achieved not later than 21 April 2017.

2. BASIS OF PREPARATION (CONTINUED)

d) 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.

e) Order of liquidity

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

An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in note 21.

f) Critical accounting judgements, estimates and assumptions

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Such judgements, 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 judgements, estimates and assumptions are as follows:

i. Impairment of financial assets

The Company exercises judgement 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 the group of financial assets that can be reliably estimated.

Impairment of available-for-sale investment includes determination of a significant or prolonged decline in the fair value below its cost. Impairment losses on held to maturity investments are measured as the difference between carrying cost and the present value of estimated future cash flows. Impairment losses are recognised in the statement of profit or loss as impairment loss on held to maturity investments. If the amount of impairment loss is subsequently decreased and the decrease can be related objectively to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through statement of profit or loss.

Evidence for impairment of Ijara receivables 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 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 judgements 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. 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.

2. BASIS OF PREPARATION (CONTINUED)

f) Critical accounting judgements, estimates and assumptions (continued)

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

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.

2. BASIS OF PREPARATION (CONTINUED)

f) Critical accounting judgements, estimates and assumptions (continued)

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:

a) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents consist of bank balances and placement deposits that have an original maturity of three months or less.

b) Held to maturity investments

Held to maturity investments are non-derivative assets having fixed or determinable payments and fixed maturity that the management has the positive intention and ability to hold to maturity.

Held to maturity investments are carried at amortized cost using effective profit rate method less any impairment losses. Any gain or loss on such investments is recognized in the statement of profit or loss when the investment is derecognized or impaired.

c) Available-for-sale investments

Available-for-sale investments' are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Fair value changes, other than impairment losses are recognised in Statement of Other Comprehensive Income and presented in the fair value reserve within equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit or loss.

d) 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.

e) 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. Expenditure

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Property and equipment (continued)

for repair and maintenance are charged to the profit or loss. Improvements that increase the value or materially extend the life of the related assets are capitalized.

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 fixture	6
Office equipment	5
Computer equipment and software	5
Vehicles	5

f) Intangible assets

Intangibles assets are initially recognised at cost less accumulated amortization and impairment losses, if any. Costs that are directly associated with identifiable software product controlled by the Company and have probable economic benefits beyond one year are recognised as intangible asset. Costs associated with maintaining computer software are recognised as an expense as and when incurred.

Amortisation is charged to profit and loss account by applying the straight line basis whereby the carrying amount of an asset is amortised over its estimated useful life to the Company unless such life is indefinite. Amortisation is charged from the month the asset is available for use, while in case of disposal it is charged upto the month of disposal. The estimated useful life of intangible assets (computer softwares) is 5 years.

The Company accounts for impairment, where indications exist, by reducing asset's carrying amount to the recoverable amount.

g) 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.

h) 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.

i) 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 the financial asset or group of financial assets and that a loss event(s) has an impact on the future cash flows of the financial asset or 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;
• the restructuring of a Ijara receivables by the Company on terms that the Company would not consider otherwise;
• indications that a borrower will enter bankruptcy;
• 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Impairment of financial assets (continued)

Ijara receivables whose terms have been renegotiated are no longer considered to be past due but are treated as new financing after the individual impairment assessment. Restructuring policies and practices are based on indicators or criteria which, indicate that payment will most likely continue. The financing will continue to be subject to an individual or collective impairment assessment, calculated using the financing's original effective yield rate.

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, Ijara income is thereafter recognised based on the rate of Ijara 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 provision for impairment 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 debtor'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.

j) Financial liability

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 accrued expenses and other current liabilities. Gains and losses are recognized in the Statement of profit or loss when the liabilities are derecognized.

k) Derecognition of financial instruments

A financial asset (or a part of a financial asset, or a part of a group of similar financial assets) is derecognised, when the contractual rights to receive the cash flows from the financial asset expires. In instances where the Company is assessed to have transferred a financial asset, the asset is derecognised if the Company has transferred substantially all the risks and rewards of ownership. Where the Company has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognised only if the Company has not retained control of the financial asset. The Company recognises separately as assets or liabilities any rights and obligations created or retained in the process.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l) 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.

m) Employees end of service benefits

Provision is made for amounts payable under the Saudi Arabian Labour Law applicable to employees' accumulated 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.

n) Revenue recognition

Income on held to maturity investments is recognised in the profit or loss on an effective yield basis on the amount of investment. Income on Ijara receivables is recognised in the profit or loss on an effective yield basis over the life of the underlying transaction.

Appraisal fee for services rendered are recognised when the service is provided. Management fees and commission fees earned for Ijara receivables are recognised as an adjustment to the effective profit rate on these receivables. When it is unlikely that receivables will continue to be held by the Company, such fees are recognised in the profit or loss in the period in which the receivables no longer continue to exist in the financial statements.

o) Expenses

Selling and marketing expenses are those that specifically relate to sales and marketing. All other expenses are classified as general and administration expenses.

p) Operating leases

Operating lease payments are recognised as expenses in the profit or loss on a straight-line method basis over the lease contract period.

q) Foreign currencies

Transactions denominated 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 profit or loss. Gains or losses on foreign currency transactions are included in the statement of profit or loss during the period.

r) Zakat

The Company's Saudi shareholders are subject to Zakat in accordance with the regulations of the General Authority of Zakat and Tax (the "GAZT") as applicable in the Kingdom of Saudi Arabia.

(Saudi Arabian Riyals in '000)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

s) 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. Due to accumulated losses, no such transfer was made during the year.

4. CASH AND BANK BALANCES

	2016
Cash in hand	10
Cash at bank – current accounts	227,004
	227,014

5. AVAILABLE-FOR-SALE INVESTMENT

This represents investment in ICD Money Market Fund, an unquoted fund managed by Islamic Corporation for Development (ICD).

	Cost	Unrealized gain	Fair value as at 31 December 2016
ICD Money Market Fund	75,180	2,916	78,096
	75,180	2,916	78,096

5.1 During the period from 31 March 2015 to 31 December 2016, the Company purchased and subsequently disposed of the units of Saudi Riyal Commodity Fund, a fund managed by Al Rajhi Capital, for an amount of SR 125.108 million (cost: SR 125 million).

6. HELD TO MATURITY INVESTMENTS

Held to maturity investments represent term-deposits placed with banks operating within the Kingdom of Saudi Arabia and have an original maturity period of upto three months:

	Note	2016
Alinma Bank	*6.1*	151,251
Gulf International Bank	*6.1*	52,296
		203,547

6.1 These deposits are due to mature during 15 January 2017 to 26 January 2017 and carry profit rates ranging from 3.09% to 3.95% per annum.

6.2 The carrying value of above held to maturity investments includes accrued special commission income amounting to SR 1.547 million. During the period from 31 March 2015 to 31 December 2016, special commission income on held to maturity investments amounting to SR 22.175 million has been recognised in the statement of profit or loss, out of which SR 0.713 million relates to pre-incorporation income.

(Saudi Arabian Riyals in '000)

7. IJARA RECEIVABLES, NET

	Note	31 December 2016
Gross Ijara receivables		590,645
Less: Unearned income		(235,050)
		355,595
Less: Provision for Ijara receivables losses	*7.1*	(4,445)
Ijara receivables, net		351,150

7.1 This represents allowance for collective provision on Ijara receivables.

7.2 These Ijara receivables are secured against mortgage of financed properties with an aggregate fair value of SR 441.827 million on the date of financing. Valuation technique used to determine the fair value of collateral included a combination of the cost and market approach and is done by independent external evaluators on the approved panel of the Company.

Title deed of real estate properties financed by the Company are registered in the name of the appointed trustees under a Trusteeship agreement, as the Company's By-laws are silent with respect to the title holder of those real estate properties. The Company is in the process of amending its By-laws to clarify the above matter.

7.3 The credit quality of the unimpaired receivables is as follows:

	31 December 2016
Neither past due nor impaired	181,814
Past due but not impaired	173,781
	355,595

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

	Ijara receivables	Past due installments
01 – 30 days	108,645	807
31 – 60 days	50,680	740
61 – 90 days	14,456	478
Total	173,781	2,025

The fair value of collateral based on the appraisal at the time of origination of the financial assets, held by Company by each category are as follows:

	2016
Current	228,509
01 – 30 days	133,252
31 – 60 days	62,268
61 – 90 days	17,798
	441,827

(Saudi Arabian Riyals in '000)

7. IJARA RECEIVABLES, NET (CONTINUED)

7.4 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.

	31 December 2016
Less than 50%	1,971
51-70%	21,066
71-85%	312,134
86-100%	20,424
Total Exposure	355,595

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

7.5 The credit exposure from Ijara receivables is classified as under:

	Not later than one year	Later than one year but not later than five years	Later than five years	Total
Ijara receivables	35,079	103,308	452,258	590,645
Unearned income	(20,506)	(56,253)	(158,291)	(235,050)
	14,573	47,055	293,967	355,595
Provision for credit losses				(4,445)
				351,150

The Company's implicit rate of return on leases ranges between approximately 4.84% and 10.58%. Duration of Ijara receivable ranges from five to thirty years.

8. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2016
Deposits	213
Prepayments	1,359
Accrued Ijara income	2,771
Other receivables	75
	4,418

9. INTANGIBLE ASSETS, NET

	2016
Cost:	
Additions during the period (Computer softwares)	2,877
As at 31 December 2016	2,877
Amortization:	
Charge for the period	544
As at 31 December 2016	544
Net book value as at 31 December 2016	2,333

(Saudi Arabian Riyals in '000)

10. PROPERTY AND EQUIPMENT, NET

	31 December 2016					
	Leasehold improvement	Office equipment	Furniture and fixtures	Computer equipment	Vehicles	Total
Cost:						
Additions	4,141	114	805	3,335	395	**8,790**
Disposals	--	--	(41)	--	--	**(41)**
As at 31 December 2016	4,141	114	764	3,335	395	**8,749**
Accumulated depreciation:						
Charge for the period	235	15	90	905	79	**1,324**
Disposals	--	--	(4)	--	--	**(4)**
As at 31 December 2016	235	15	86	905	79	**1,320**
Net book value as at 31 December 2016	**3,906**	**99**	**678**	**2,430**	**316**	**7,429**

(Saudi Arabian Riyals in '000)

11. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	Notes	31 December 2016
Accounts payables		**5,486**
Down payment against Ijara financing	*11.1*	**8,183**
Accrued expenses		**5,174**
Deferred management fee		**1,036**
Salaries and employee related benefits		**382**
		20,261

11.1 This pertains to down payment against Ijara financing not executed as at statement of financial position date.

12. ZAKAT

The significant components of the Company's Zakat base for the period from 31 March 2015 to 31 December 2016 comprise of the following:

Share capital	**900,000**
Adjusted net loss for the period	**(65,980)**
Less:	
Written down value of property and equipment and intangibles	**(9,468)**
Ijara receivables	**(337,815)**
Zakat base	**486,737**
Zakat charge for the period	**12,168**

Status of Assessment

The Company is in the process of submitting its first Zakat declaration with GAZT for the period upto 31 December 2016.

13. SHARE CAPITAL

As at 31 December 2016, the authorised, issued and fully paid-up share capital of the Company was SR 900 million divided into 90 million shares with a nominal value of SR 10 each, which is owned by the shareholders as follows:

13. SHARE CAPITAL (CONTINUED)

Name of shareholders	Number of shares 000's	Holding Percentage (%)	Amount SR'000
Public Investment Fund	20,000	22.2	200,000
Islamic Corporation for Development	18,000	20.0	180,000
Rashed Al Rashed and Sons	15,300	17.0	153,000
Mohammad Yousef Naghi Motors	10,000	11.1	100,000
Arab Investment Company	10,000	11.1	100,000
Al Othaim Holding	10,000	11.1	100,000
Al Khereji Investments	3,200	3.6	32,000
Manfea Holding Company	2,000	2.2	20,000
Jawahir Investment Company	1,500	1.7	15,000
	90,000	**100**	**900,000**

14. GENERAL AND ADMINISTRATIVE EXPENSES

	Note	2016
Salaries and employee related benefits		**23,308**
Professional fees		**6,514**
IT expenses		**3,510**
Rent and premises related expenses		**3,056**
Other expenses		**4,013**
		40,401

15. SELLING AND MARKETING EXPENSE

	2016
Advertising and marketing expense	**6,347**
Salaries and employee related expenses	**4,010**
Lease property evaluation and insurance	**1,049**
	11,406

16. PRE-OPERATING EXPENSE

	2016
Technical consultancy	**16,500**
IT expenses	**2,073**
Product development	**1,500**
Salaries expenses	**1,335**
Feasibility study and financial model	**976**
Others	**824**
	23,208

Pre-operating expenses were incurred by ICD for the establishment of the Company. These expense were reimbursed by the Company on 10 November 2015 after approval in the Shareholders' General Meeting held on 10 March 2015.

(Saudi Arabian Riyals in '000)

17. LOSS PER SHARE – BASIC & DILUTED

Loss per share for the period is calculated by dividing net loss for the period by the weighted average number of shares (90 million shares) in issue during the period.

18. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise of the followings:

	Notes	2016
Cash in hand	*4*	**10**
Cash at bank – current account	*4*	**227,004**
Held to maturity investments with original maturity of three months or less from the date of purchase	*6*	**203,547**
		430,561

19. 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 related parties on mutually agreed terms.

The significant transactions with related parties during the year and the related balances are as follows:

Name of related parties	*Nature of relationship*	**Nature of transaction**	**Amount of transaction during the period 2016**	**Closing balance 2016**
Islamic Corporation for Development	Shareholder	Payment of pre-operating expenses	**23,208**	--
		Reimbursement of pre-operating expenses	**(23,208)**	--
Islamic Corporation for Development Money Market Fund	A fund managed by a shareholder	Available-for-sale investments	**75,180**	**78,096**

The amounts of compensations recorded in favor of or paid to the Board of Directors and the executive management personnel during the year are as follows:

Key Management Personnel	Salaries and benefits	**8,888**	**353**
	Provision for end of service benefits	**340**	**315**
	Board meeting fees and other expenses	**134**	--

(Saudi Arabian Riyals in '000)

20. COMMITMENTS

The Company has facilities approved but not utilized, 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, amount to SR 21.532 million.

In addition, the Company has leased the head office building and Riyadh branch for a period of 5 years. Outstanding lease commitments expire as follows:

	2016
Within one year	**3,220**
Two to three years	**5,033**
Three to five years	**824**
	9,077

21. RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including profit rate risks, equity price risk and currency risk). The Company's overall risk management program 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 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 may fail to discharge its contractual obligation and cause the other party to incur a financial loss. The Company has established procedures to manage credit risk including evaluation of lessees' credit worthiness, formal credit approvals and obtaining collateral. Furthermore, all the Ijara financing are allowed for the maximum term of 30 years.

The Company follows a credit classification mechanism, as a tool to manage the quality of credit risk of the financed Ijara. The credit classification differentiates between performing and non-performing portfolios, and allocates provisions accordingly.

The credit risks on gross amounts due in relation to the Ijara receivables is mitigated by the retention of title on leased assets as reduced by the down payments made by the customers.

The Company's held to maturity investments are concentrated with banks that are incorporated in the Kingdom of Saudi Arabia and have sound credit ratings.

The table below reflects the maximum exposure to credit risk on the financial assets at the reporting date:

	2016
Cash at bank	**227,004**
Held to maturity investments	**203,547**
Ijara receivables	**355,595**
Deposits and other receivables	**3,059**
	789,205

(Saudi Arabian Riyals in '000)

21. RISK MANAGEMENT (CONTINUED)

The table below reflects the concentration of the credit risk:

	2016
Blue chip	84,512
Private sector	115,648
Government sector	58,890
Self Employed	76,338
Semi Government	20,207
	355,595

Liquidity risk

Liquidity risk is the risk that the Company may encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. The Company monitors and manages the liquidity structure of its assets and liabilities to ensure that cash flows are sufficiently balanced and that sufficient liquid funds are maintained to meet liquidity requirements.

The tables below summarize the maturity profile of the Company's assets and liabilities, on the basis of the remaining maturity as of the statement of financial position date to the contractual maturity date.

		Contractual cashflows					
	Carrying value	Total	Upto three months	More than three months and upto one year	More than one year and upto five years	Over five years	No fixed maturity
Assets							
Cash and bank balances	227,014	227,014	--	--	--	--	227,014
Available-for-sale investments	78,096	78,096	--	--	--	--	78,096
Held to maturity investments	203,547	203,547	203,547	--	--	--	--
Ijara receivables	355,595	355,595	4,141	10,432	47,055	293,967	--
Deposits and other receivables	3,059	3,059	2,846	--	213	--	--
	867,311	867,311	210,534	10,432	47,268	293,967	305,110
Liabilities							
Accrued expenses and other current liabilities	20,261	20,261	18,336	--	--	--	1,925
	20,261	20,261	18,336	--	--	--	1,925
Gap	847,050	847,050	192,198	10,432	47,268	293,967	303,185

(Saudi Arabian Riyals in '000)

21. RISK MANAGEMENT (CONTINUED)

The following table discloses the maturity of financial liabilities on undiscounted cash flows as at 31 December 2016:

	Upto three months	More than three months and upto one year	More than one year and upto five years	No fixed maturity	Total
Accrued expenses & other current liabilities	18,336	--	--	1,925	20,261
Total	18,336	--	--	1,925	20,261

Market risk

Market risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as special commission rates and foreign exchange rates. Market rate can be categorised into profit rate risk, equity price risk and currency risk as follows:

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 at the date in statement of financial position are the Company's Ijara receivables and investment activities, where fluctuations in profit rates, if any, are reflected in the results of operations. The Company is not exposed to profit rate risk on investment activities since the financial assets are fixed profit bearing. The Company's held to maturity investments in Murabaha placements are short-term in nature and the Company monitors changes in rate periodically and determines the risk of holding them based on changes in market rates. Fluctuations in rates of financing for the Ijara receivables, if any, are reflected in the statement of profit or loss.

The following table depicts the sensitivity to a reasonable possible change in profit rates, with other variables held constant, on the Company's profit or loss. The sensitivity of income is the effect of the assumed changes in profit rates on the Ijara income for one year, based on the floating rate non-trading financial assets as at 31 December 2016.

	31 December 2016					
Currency	Increase in basis points	Sensitivity of profit or loss	Upto three months	More than three months and upto one year	More than one year and upto five years	Over five years
SR	+/- 25	1,398	519	26	118	735

The Company is exposed to profit rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or re-price in a given period. The Company manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

The table below summarises the Company's exposure to profit rate risks. Included in the table are the Company's financial instruments at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

21. RISK MANAGEMENT (CONTINUED)

	31 December 2016						
	Carrying value	Upto three months	More than three months and upto one year	More than one year and upto five years	Over five years	No fixed maturity	Total
Assets							
Cash and bank balances	227,014	--	--	--	--	227,014	227,014
Available-for-sale investment	78,096	--	--	--	--	78,096	78,096
Held to maturity investments	203,547	203,547	--	--	--	--	203,547
Ijara receivables	355,595	4,141	10,432	341,022	--	--	355,595
Deposits and other receivables	3,059	2,846	--	213	--	--	3,059
	867,311	210,534	10,432	341,235	--	305,110	867,311
Liabilities							
Accrued expenses and other current liabilities	20,261	18,336	--	--	--	1,925	20,261
Gap	847,050	192,198	10,432	341,235	--	303,185	847,050

Equity Price Risk

Equity risk refers to the risk of decrease in fair values of equities in the Company's non-trading investment portfolio as a result of reasonable possible changes in levels of equity indices and the value of individual stocks.

The effect on the Company's equity investments held as available-for-sale due to reasonable possible change in prices, with all other variables held constant is as follows:

	2016	
	Change in Equity price %	Effect in SR in '000
Mutual funds	+/- 5	+/- 3,905

Currency risk

Currency risk is the risk that the value of financial instruments may 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's available-for-sale investment in ICD Money Market Fund is denominated in US Dollars which is pegged to SR, therefore, the Company is not exposed to significant currency risk.

(Saudi Arabian Riyals in '000)

22. 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 assets and financial liabilities.

Financial assets consist of cash and cash equivalents, held to maturity investments, available-for-sale investments and other receivables. Financial liabilities consist of accrued expenses and other liabilities payable.

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

- 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 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 following table shows the carrying amounts and fair values of financial instruments and non- financial instruments including their levels in the fair value hierarchy:

	31 December 2016				
Financial assets at fair value	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Available-for-sale investment	78,096	--	78,096	--	78,096

	31 December 2016				
Financial assets not measured at fair value	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and bank balance	227,014	227,014	--	--	227,014
Held to maturity investments	203,547	--	--	203,547	203,547
Ijara receivables, net	351,150	--	--	351,150	351,150
Deposits and other receivables	3,059	--	--	3,059	3,059
	784,770	227,014	--	557,756	784,770

(Saudi Arabian Riyals in '000)

22. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

	31 December 2016				
	Carrying value	Level 1	Level 2	Level 3	Total
Financial liabilities not measured at fair value					
Accrued expenses and other current liabilities	20,261	--	--	20,261	20,261
	20,261	--	--	20,261	20,261

Since all the held to maturity investments are short-term, their carrying value approximates the fair value. Available-for-sale investment in mutual fund has been valued based on net assets value reported by the Fund Manager. Ijara receivables has been underwritten during the period and hence their carrying value approximates their fair value.

23. CAPITAL MANAGEMENT

The Company's policy is to maintain a strong capital base to maintain creditor and market confidence and to sustain future development of the business. Management monitors the return on capital as well as the level of dividends to ordinary shareholders.

The Board of Directors seeks to maintain a balance between the higher returns that might be possible with the advantages afforded by a sound capital position.

24. 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.

25. ISSUED IFRS BUT NOT YET EFFECTIVE

The Company has not early adopted the following 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 IAS 7	Disclosure Initiative	1 January 2017
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions	1 January 2018
IFRS 16	Leases	1 January 2019

26. APPROVAL OF FINANCIAL STATEMENTS

The financial statements and its accompanying notes were approved for issue by the Board of Directors' on 25 Jumada Al-Awwal 1438H (corresponding to 22 February 2017).