SAUDI HOME LOANS COMPANY (SHL)
(A Saudi Closed Joint Stock Company)
Financial Statements
For the year ended 31 December 2016
together with
Independent Auditors' Report

SAUDI HOME LOANS COMPANY (SHL)
(A Saudi Closed Joint Stock Company)
For the year ended 31 December 2016

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INDEPENDENT AUDITORS' REPORT

The Shareholders
Saudi Home Loans Company
Riyadh, Kingdom of Saudi Arabia

We have audited the accompanying financial statements of **Saudi Home Loans Company** ("the Company") which comprises the Statement of Financial Position as at 31 December 2016 and the related Statement of Profit and Loss and Other Comprehensive Income, Statement of Cash Flows and Statement of Changes in Shareholders' Equity for the year then ended and the attached notes 1 through 28 which form an integral part of the 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 (IFRS) as issued by the International Accounting Standards Board (IASB) and the Company's Bye-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' responsibility

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 entity'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 entity'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:

1) present fairly, in all material respects, the financial position of **Saudi Home Loans Company** ("the Company") as at 31 December 2016, the financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB); and

2) comply with the requirements of the Regulations for Companies and the Company's Bye-Laws with respect to the preparation and presentation of financial statements.

Emphasis of matter

We draw attention to the fact that these financial statements are prepared in accordance with IFRS and not in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia as issued by the Saudi Organisation for Certified Public Accountants.

For KPMG Al Fozan & Partners
Certified Public Accountants

Abdullah Hamad Al Fozan
License No. 348

كي بي ام جي الفوزان وشركاه
محاسبون ومراجعون قانونيون
C.R. 46
KPMG
Certified Public Accountants
KPMG Al Fozan & Partners

Riyadh on: 26 Jumada'I 1438H
Corresponding to: 23 February 2017

SAUDI HOME LOANS COMPANY (SHL)
(A Saudi Closed Joint Stock Company)
STATEMENT OF FINANCIAL POSITION
As of 31 December 2016
(Saudi Riyals)

	31 December 2016	31 December 2015
ASSETS		
Cash and cash equivalents (Notes 3b and 4)	**34,729,558**	8,200,836
Advances to property owners (Note 11)	**6,943,000**	4,492,000
Due from related parties (Note 9)	**1,166,342**	2,607,061
Prepaid expenses and other assets, net (Note 10)	**17,723,206**	19,166,623
Other real estate assets (Note 3e)	**1,079,685**	224,685
Long term Investment in Finance lease – net (Notes 3c & 7)	**3,989,661,872**	3,689,595,475
Deferred origination fees (Notes 3h & 8)	**33,798,344**	34,147,831
Intangible assets, net (Notes 3g and 5)	**5,257,067**	6,070,215
Property and equipment, net (Note 3f and 6)	**5,199,509**	5,369,726
Total assets	**4,095,558,583**	3,769,874,452
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable	**754,933**	2,690,546
Accrued expenses and other liabilities (Notes 3j & 16)	**6,915,653**	7,353,836
Advance lease rental (Note 3i)	**14,540,008**	13,970,160
Provision for estimated Zakat and income tax (Notes 3q and 21)	**6,441,752**	7,847,553
Tawaruq financing facilities (Note 15)	**2,719,102,697**	2,485,239,517
End of service benefits (Note 3p and 17)	**4,949,249**	3,815,850
Total liabilities	**2,752,704,292**	2,520,917,462
Shareholders' Equity		
Share capital (Note 12)	**800,000,000**	800,000,000
Statutory reserve (Note 13)	**58,101,786**	48,075,877
General reserve (Note 14)	**50,607,280**	40,581,371
Retained earnings	**434,145,225**	360,299,742
Total shareholders' equity	**1,342,854,291**	1,248,956,990
Total liabilities and shareholders' equity	**4,095,558,583**	3,769,874,452

The accompanying notes from (1) to (28) are an integral part of these financial statements

SAUDI HOME LOANS COMPANY (SHL)
(A Saudi Closed Joint Stock Company)
STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME
For The Year Ended 31 December 2016
(Saudi Riyals)

	2016	2015
Lease finance income (Note 3r)	**258,806,400**	244,774,527
Service fees, net (Note 3r)	**13,025,411**	14,378,614
Financing charges (Note 15)	**(108,416,240)**	(77,252,512)
Net lease finance income	**163,415,571**	181,900,629
Application and evaluation fee income (Note 3r)	**3,880,350**	2,346,685
Total operating income	**167,295,921**	184,247,314
General and administrative expenses (Notes 3s and 18)	**(44,657,826)**	(43,010,124)
Selling and marketing expenses (Note 3s and 19)	**(23,773,254)**	(20,769,106)
Net operating income	**98,864,841**	120,468,084
Other income	**1,394,245**	124,881
Net income for the year	**100,259,086**	120,592,965
Other Comprehensive Income:		
Items that will not be reclassified subsequently to profit or loss	--	--
Items that may be reclassified subsequently to profit or loss	--	--
Total comprehensive income for the year	**100,259,086**	120,592,965
Basic and diluted earnings per share (Note 22)	**1.25**	1.51

The accompanying notes from (1) to (28) are an integral part of these financial statements

SAUDI HOME LOANS COMPANY (SHL)
(A Saudi Closed Joint Stock Company)
STATEMENT OF CASH FLOWS
For The Year Ended 31 December 2016
(Saudi Riyals)

	2016	2015
Cash Flows from Operating Activities		
Net profit for the year	**100,259,086**	120,592,965
Adjustments to reconcile net profit to net cash provided by operating activities:		
Depreciation (Note 6)	**1,319,785**	1,423,102
Amortization Intangible Asset (Note 5)	**1,475,999**	691,345
Amortization Origination Fees (Note 8)	**3,675,726**	3,153,855
Gain on sale of property and equipment	**(64,998)**	--
Provision for end of service benefits (Note 17)	**1,320,951**	1,217,605
Provision for lease losses (Note 7)	**2,302,098**	4,450,145
Reversal of provisions	**(1,094,245)**	(1,255,203)
Changes in assets and liabilities:		
Net change in finance lease investments (Note 7)	**(303,223,495)**	(118,927,739)
Net change in related party balances	**1,440,719**	(1,179,703)
Prepaid expenses and other assets (Note 10)	**2,537,662**	(7,710,908)
Advances to property owners	**(2,451,000)**	34,652,200
Accrued expenses and other liabilities (Note 16)	**(438,183)**	(4,728,599)
Advance lease rental	**569,848**	2,004,417
Accounts payable	**(1,935,613)**	619,220
Deferred origination fees paid (Note 8)	**(3,326,239)**	(1,715,502)
End of service benefits paid (Note 17)	**(187,552)**	(446,073)
Zakat and income tax paid (Note 21)	**(7,767,586)**	(9,776,312)
Net cash flow from operating activities	**(205,587,037)**	23,064,815
Cash Flows from Investing Activities		
Purchase of property and equipment (Note 6)	**(1,812,421)**	(4,588,883)
Proceeds from sale of property and equipment	**65,000**	8,120
Net cash used in investing activities	**(1,747,421)**	(4,580,763)
Cash Flows from Financing Activities		
Addition in tawaruq financing facilities	**562,665,746**	223,445,005
Repayment in tawaruq financing facilities	**(328,802,566)**	(236,555,357)
Net cash flow from financing activities	**233,863,180**	(13,110,352)
Net increase in cash and cash equivalents	**26,528,722**	5,373,700
Cash and cash equivalents at the beginning of the year	**8,200,836**	2,827,136
Cash and cash equivalents at the end of the year	34,729,558	8,200,836
Non-cash transactions		
Capital work in progress transferred to intangible assets and property and equipment (Note 6)	1,812,421	9,032,746

The accompanying notes from (1) to (28) are an integral part of these financial statements

SAUDI HOME LOANS COMPANY (SHL)
(A Saudi Closed Joint Stock Company)
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For The Year Ended 31 December 2016
(Saudi Riyals)

For the year ending 31 December 2015

	Capital	Statutory reserve	General reserve	Retained earnings	Total Shareholders' Equity
Beginning of the year	800,000,000	36,016,581	28,522,075	271,850,007	1,136,388,663
Net income for the year	--	--	--	120,592,965	120,592,965
Transfers to reverses	--	12,059,296	12,059,296	(24,118,592)	--
Zakat and income tax	--	--	--	(8,024,638)	(8,024,638)
	800,000,000	48,075,877	40,581,371	360,299,742	1,248,956,990

For the year ending 31 December 2016

	Capital	**Statutory reserve**	**General reserve**	**Retained earnings**	**Total Shareholders' Equity**
Beginning of the year	**800,000,000**	**48,075,877**	**40,581,371**	**360,299,742**	**1,248,956,990**
Net income for the year	--	--	--	**100,259,086**	**100,259,086**
Transfers to reverses	--	**10,025,909**	**10,025,909**	**(20,051,818)**	--
Zakat and income tax	--	--	--	**(6,361,785)**	**(6,361,785)**
	800,000,000	**58,101,786**	**50,607,280**	**434,145,225**	**1,342,854,291**

The accompanying notes from (1) to (28) are an integral part of these financial statements

1. LEGAL STATUS AND OPERATIONS

Saudi Home Loans Company (SHL) ("the Company") is a Saudi closed joint stock company registered in Riyadh, Kingdom of Saudi Arabia under commercial registration No. 1010241934 dated Dul Al Hejja 22, 1428H (corresponding to January 1, 2008). The Company also operates under Saudi Arabian General Investment Authority (SAGIA) license no: 102030072425-01 dated 23 Rajab 1430H (corresponding to July 16, 2009).

The principal activities of the Company is to finance the purchase of houses and residential land and apartments, financing of real estate properties that are developed by all companies operating in the real estate development and financing the establishment of commercial and industrial projects, except in Mecca and Madina.

2. BASIS OF PREPARATION

2.1 *Statement of compliance*

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The financial statements have been prepared on historical cost basis.

2.2 *Functional and presentation currency*

Items included in these financial statements are measured using the currency of the primary economic environment in which the Company operates. These financial statements are presented in Saudi Riyals which is the Company's functional and presentation currency. All financial information presented in Saudi Riyals has been rounded to the nearest Saudi riyal.

2.3 *Critical accounting estimates and judgements*

The preparation of financial statements in conformity with approved accounting standards, requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expenses.. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The areas involving significant estimates or judgements are:

(a) determining the residual values and useful lives of property and equipment;
(b) impairment allowance for potential lease and other loan losses;
(c) provisions;
(d) recognition of taxation and Zakat; and
(e) accounting for termination benefits.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies used by the company in the preparation of these financial statements are explained as follows :

a) The adoption of new standards, amendments and revisions to existing standards, as mentioned below, which had no significant financial impact on the financial statements of the Company:

- Amendments to IAS 1 – "Presentation of Financial Statements", applicable for the annual periods beginning on or after 1 January 2016, clarify, existing IAS 1 requirements in relation to;

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and other comprehensive income ("OCI") and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

The amendments further clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI.

- Amendments to IAS 16 – "Property, Plant and Equipment" and IAS 38 – "Intangible Assets", applicable for the annual periods beginning on or after 1 January 2016, restricts the use of ratio of revenue generated to total revenue expected to be generated to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

- Amendments to IAS 16 – "Property, Plant and Equipment" and IAS 41 – "Agriculture", applicable for the annual periods beginning on or after 1 January 2016, change the scope of IAS 16 to include biological assets that meet the definition of bearer plants. Agricultural produce growing on bearer plants will remain within the scope of IAS 41. In addition, government grants relating to bearer plants will be accounted for in accordance with IAS 20 – "Accounting for Government Grants and Disclosure of Government Assistance", instead of IAS 41

Annual improvements to IFRS 2012-2014 cycle applicable for annual periods beginning on or after 1 January 2016. A summary of the amendments is as follows:

- IFRS 5 – "Non-current Assets Held for Sale and Discontinued Operations", amended to clarify that changing from one disposal method to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5.

- IFRS 7 – "Financial Instruments: Disclosures" has been amended to clarify that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. The nature of the fee and the arrangement should be assessed in order to consider whether the disclosures are required under IFRS 7 and the assessment must be done retrospectively. IFRS 7 has been further amended to clarify that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

b) *Cash and cash equivalents*

Cash and cash equivalents comprise of cash in hand and at banks, as well as short term highly liquid investments, if any, with original maturity of three months or less, which are available to the company without any restriction.

c) *Long Term investment in Finance lease*

Long term investments in finance lease represents net investment in Ijarah leasing contracts which is receivable from customers on account of finance leases. Leases in which the Company transfers substantially all the risks and rewards incidental to the ownership of an asset to the lessees at the end of the contract are classified as finance leases according to IFRS. Long term investment in finance leases are recorded at the inception of the lease at the lower of the fair value of the leased asset or the present value of the minimum lease payments.

All leased properties are under SHL name, and the contract signed with customer represents as Ijarah contract with irrevocable promises to transfer the ownership, where the legal title of the asset will be passed to the lessee once all Ijarah instalments are settled. Based on the criteria as laid out in IAS 17, these contracts meet the definition of finance lease, even though the legal ownership of these underlying properties is not transferred as of the date of statement of financial position.

Gross long term investments in finance lease include the total of future lease payments on finance leases (lease receivables), plus estimated residual amounts receivable. The difference between the lease receivables and the cost of the leased asset is recorded as unearned lease finance income and for presentation purposes, is deducted from the gross investment in finance leases.

Recognition

The inception of the lease is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. At the inception of the lease the amounts to be recognized at the commencement of the lease term are determined

The commencement of the lease is considered to be the date when the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease.

d) *Impairment in long term investment in finance lease*

The Company reviews its lease receivables on a monthly basis to assess whether specific provisions for impairment should be recorded in the statement of profit and loss. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

Provision for lease losses ("provision") represents impairment charge relating to net investment in finance lease. Management estimates the provision using recovery rates determined based on the age of the finance lease receivable, latest valuation of the collateral property and historical losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) *Other real estate assets*

The Company, in the ordinary course of business, acquires certain real estate assets against settlement of due finance leases. Such real estate properties are considered as assets held for sale and are initially stated at the lower of net realisable value of due finance leases or the current fair value of the related properties, less any costs to sell, if material. No depreciation is charged on such real estate assets.

Subsequent to initial recognition, any subsequent write down to fair value, less costs to sell, is charged to the income statement.

Any subsequent gain in the fair value less costs to sell of these assets to the extent this does not exceed the cumulative write down is recognised as income together with any gain / loss on disposal.

f) *Property and equipment*

Property and equipment are stated at cost less accumulated depreciation. Expenditure on maintenance and repairs is expensed, while expenditure for betterment is capitalized. Depreciation is provided over the estimated useful lives of the applicable assets using the straight line method. Leasehold improvements are amortized over the shorter of the estimated useful life or the remaining term of the lease.

The estimated useful lives of the principal classes of assets are as follows:

	Rate
Leasehold improvements	10%
Motor vehicles	25%
Furniture, fixture and office equipment	10%-25%
Computers	25%-33.3%

Depreciation is charged using the straight line method over its estimated useful life, at the rates specified above, after taking into account residual value. Depreciation on additions is charged from the month the assets are available for use. Gains / losses on disposal of fixed assets, if any, are taken to the profit and loss account in the period in which they arise. Assets having an indefinite useful life are stated at acquisition cost less accumulated impairment losses, if any. The assets residual values, useful lives and methods are reviewed and adjusted, if appropriate, at each statement of financial position.

g) *Intangible assets*

Intangible assets that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment

Amortisation
Intangible assets are amortised on a straight -line basis in profit or loss over their estimated useful lives from the date that they are available for use.

The intangible assets comprise of computer software and their estimated useful life for the current and comparative years is 3-5 years.

Depreciation on property, plant and equipment and amortization on intangibles are determined using estimated useful lives of each of these assets. The useful lives are continually reassessed on an annual basis

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Deferred origination fees

Deferred origination fees comprises of the unamortized portion of commission paid to a shareholder for deals originated through the use of infrastructure, resources and client base of the shareholder. This fee is amortized using the effective rate method over the period of the respective lease contracts.

i) Advance lease rental

Advance lease rental includes rent received from customers in advance, security deposits and unapplied receipts from the customers.

j) Accrued Expenses and other liabilities

Accrued expenses and other liabilities include employee related cost, maintenance commitments and legal consultation fees.

l) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each statement of financial position date and are adjusted to reflect the current best estimates.

m) Financial instruments

Financial assets and liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

The company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the company neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset.

Any interest in transferred financial assets that qualify for de-recognition that is created or retained by the company is recognised as a separate asset or liability in the statement of financial position.

The company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

On de-recognition of a financial asset or financial liability, the difference between the carrying amount and the consideration received (and receivable) or paid (and payable) is recognised in the statement of profit or loss.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. Management determines the classification of the financial asset at the time of initial recognition.

All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m) *Financial instruments (Continued)*

Subsequent measurement
For purposes of subsequent measurement financial assets are classified in four categories:
- Financial assets at fair value through profit or loss
- Loans and receivables
- Held-to-maturity investments
- Available-for-sale financial investments

The Company has not designated any financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial investments.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables comprise of loans, advances, deposits, prepayments, other receivables and cash and cash equivalents. After initial recognition, loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment. Restructured/ rescheduled receivables are recorded at revised terms and conditions as approved by the management. Restructuring policies and practices are based on indicators or criteria which, indicate that payment will most likely continue.

Financial liabilities
Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss or other financial liabilities, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, bank overdrafts, loans and borrowings, financial guarantee contracts, and derivative financial instruments.

Subsequent measurement.
The measurement of financial liabilities depends on their classification as financial liabilities at fair value through profit or loss or "other financial liabilities".

The Company has not designated any financial liability as fair value through profit or loss.

Other financial liabilities
Other financial liabilities (including loans and borrowings and trade and other payables) are subsequently measured at amortised cost using the effective interest rate method.

Transaction costs relating to long term loans and borrowings are being amortised over the period of agreement using the effective interest rate method.

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 of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.
Regular way Contracts

Regular way purchases or sales of financial assets are those, the contract which requires delivery of assets within the timeframe generally established by regulation or convention in the market. All "regular way" purchases and sales of financial assets are recognised on the settlement date, i.e. the date on which the asset is delivered to or by the Company.

Offsetting
Financial assets and liabilities are offset and are reported net in the statement of financial position when there is a legally 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. Similarly, income and expense items of such assets and liabilities are also offset and the net amount is reported in the financial statements.

n) Proposed dividend and transfer between reserves–

Dividends and appropriations to reserves, except appropriations which are required by law, made subsequent to the statement of financial position date are considered as non-adjusting events and are recorded in the financial statements in the year in which they are approved / transfers are made.

o) Impairment

Financial assets:
An assessment is made at each statement of financial position date to determine whether there is objective evidence that a specific financial asset may be impaired.

Objective evidence whether the financial assets are impaired includes:
- default or delinquency by a lessee;
- Restricting of an amount due to the Company on terms that the Company would not consider otherwise;
- indications that the party from whom an amount is due to the Company will enter bankruptcy;
- adverse changes in payment status of the lessee; or
- observable data indicating that there is a measurable decrease in the expected cash flows from a group of financial assets.

If such evidence exists, an impairment loss is recognised in the statement of profit or loss. Impairment is determined as follows:

For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the statement of profit or loss;

For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Non-Financial assets:
An assessment is made at each statement of financial position date to determine whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's, or cash-generating units (CGU), fair value less cost to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

p) End of service benefits

End of service benefits (EOSB), as required by Saudi Arabian Labour Law, are provided in the financial statements based on the employees' length of service. EOSB calculated is in line with the requirements of IAS 19.

Employee end of service liability is estimated using average service life of employees, contractual retirement age and historical average salary increments. The liability is discounted using appropriate government bond rate.

q) Estimated Zakat and income tax

The Company is subject to the Regulations of the General Authority of Zakat and Tax ("GAZT") in the Kingdom of Saudi Arabia. Zakat is charged to the Saudi shareholders' equity account while income tax is charged to the foreign shareholders' equity account. Zakat and income tax are provided on an accrual basis. The Zakat charge is computed on the Zakat base. Income tax is computed on adjusted net income. Any difference in the estimate is recorded when the final assessment is approved, at which time the provision is cleared.

r) Revenue recognition

Finance leases income is calculated using the effective yield method which recognizes income based on the accrual method. Unearned finance income represents unearned income on leases and is deducted from the balance of notes receivable resulting from leases, which represents the remaining leases balance .

Lease finance income is recognized over the term of the lease using the effective yield method. On certain leases, the Company charges a non-refundable front-end fee which is recognized as income when received .

A Service fee is calculated at a flat rate of income and is earned on a time proportionate basis. The fee is receivable by the company due to the sale of loan portfolio to a Saudi Bank and recoverable by the company till the loans are outstanding as the services are rendered and are recorded net of related expenses.

(Saudi Riyals)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

s) *Operating expenses*

The Company follows accrual basis of accounting to record the operating expenses and recognized as expenses in the statement of income in the period in which they are incurred. Expenses that are deferred for more than one financial period are allocated to expenses over such periods using historical cost.

t) *Transactions with related parties*

The Company has related party relationships with related companies, associated companies, directors and key management personnel and entities over which the directors or key management personnel are able to exercise significant influence. The Company in the normal course of business carries out transactions with various related parties. Amounts due from and to related parties are disclosed in the relevant notes.

u) *Foreign currency transactions*

Foreign currency transactions are translated into Saudi Riyals at the rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the exchange rates prevailing at that date. Gains and losses from settlement and translation of foreign currency transactions are included in the statement of income.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand and at bank.

	2016	2015
Cash on hand	**17,500**	17,500
Bank current accounts	**34,712,058**	8,183,336
	34,729,558	8,200,836

5. INTANGIBLE ASSETS

	2016	2015
Balance at beginning of the year	**6,070,215**	231,171
Additions	**662,851**	6,530,389
Amortization for the year	**(1,475,999)**	(691,345)
Balance at the end of year	**5,257,067**	6,070,215

(Saudi Riyals)

6. PROPERTY AND EQUIPMENT, NET

	Leasehold improvements	Vehicles	Furniture, fixtures and office equipment	Computers	Work-in-process	Total
Cost						
Balance at beginning of the year	5,180,578	577,701	5,695,702	6,566,374	194,125	18,214,480
Additions	151,072	300,000	88,589	609,909	1,812,421	2,961,991
Disposals	--	(382,700)	(90,616)	(7,195)		(480,511)
Transfers	--	--	--	-	(1,812,421)	(1,812,421)
Balance at the end of year	5,331,650	495,001	5,693,675	7,169,088	194,125	18,883,539
Accumulated depreciation						
Balance at beginning of the year	2,245,582	421,183	4,399,866	5,778,123	--	12,844,754
Charge for the year	512,474	111,264	189,589	506,458	--	1,319,785
Disposals	--	(382,698)	(90,616)	(7,195)	--	(480,509)
Balance at the end of year	2,758,056	149,749	4,498,839	6,277,386	--	13,684,030
Net book value						
31 December 2016	2,573,594	345,252	1,194,836	891,702	194,125	5,199,509

	Leasehold improvements	Vehicles	Furniture, fixtures and office equipment	Computers	Work-in-process	Total
Cost						
Balance at beginning of the year	4,149,023	497,801	5,482,288	5,992,477	4,637,989	20,759,578
Additions	1,285,640	79,900	557,371	579,447	4,588,882	7,091,240
Disposals	(254,085)	--	(343,957)	(5,550)	--	(603,592)
Transfers	--	--	--	--	(9,032,746)	(9,032,746)
Balance at the end of year	5,180,578	577,701	5,695,702	6,566,374	194,125	18,214,480
Accumulated depreciation						
Balance at beginning of the year	2,034,247	307,125	4,322,231	5,353,526	--	12,017,129
Charge for the year	465,420	114,058	413,477	430,147	--	1,423,102
Disposals	(254,085)	-	(335,842)	(5,550)	--	(595,477)
Balance at the end of year	2,245,582	421,183	4,399,866	5,778,123	--	12,844,754
Net book value						
31 December 2015	2,934,996	156,518	1,295,836	788,251	194,125	5,369,726

(Saudi Riyals)

7. LONG TERM INVESTMENT IN FINANCE LEASE - NET

This balance represents net investments in the finance lease as summarized below:

	2016	2015
Minimum lease payments:		
Performing leases	**6,200,863,631**	5,723,729,920
Non-performing leases	**110,270,184**	111,449,241
Long term investments in finance lease – Gross	**6,311,133,815**	5,835,179,161
Unearned finance income	**(2,309,667,267)**	(2,136,031,599)
Long term investments in finance lease before impairment - net	**4,001,466,548**	3,699,147,562
Less: Impairment allowance	**(11,804,676)**	(9,552,087)
Long term investments in finance lease	**3,989,661,872**	3,689,595,475
Less: Current portion	**(221,161,731)**	(186,926,921)
Less: Accrued finance lease receivable	**(22,736,773)**	(26,145,725)
Non-current portion	3,745,763,368	3,476,522,829

The Company generates substantially all of its revenues from leasing real estate in the Kingdom of Saudi Arabia. Gross amounts due in relation to the finance leases are due from individual customers. Title deeds of the underlying properties are in the name of the Company, except for those where the ownership has been transferred to Arab National Bank (a shareholder) in accordance with the terms of the facilities agreements for Tawaruq Financing facilities (Refer to Note 15), and for those where the ownership has been kept under the name of Kingdom Installment Company (a shareholder) as a custodian in accordance with the custodian agreement.

The maturities of Minimum Lease Payments, unearned finance income and long term investments in finance lease before provision for impairment as at Dec 31, 2016 are as follows:

	2016			2015
Year	Minimum lease payments	Unearned finance income	Long term investments	Long term investments
Within one year	**510,821,439**	**255,118,260**	**255,703,179**	222,624,730
Year two	**482,897,090**	**238,937,046**	**243,960,044**	206,114,322
Year three	**474,077,585**	**221,972,307**	**252,105,278**	215,475,572
Year four	**460,050,244**	**204,774,011**	**255,276,233**	222,095,017
Year five and later	**4,383,287,457**	**1,388,865,643**	**2,994,421,814**	2,832,837,921
	6,311,133,815	2,309,667,267	**4,001,466,548**	3,699,147,562

Allocation of amounts due under finance leases, net of unearned finance income and provision for impairment in finance lease receivable are as follows:

	Performing leases, net	Non-performing leases, net	Provision for lease losses	Long term investments
As at 31 December 2016	**3,940,142,427**	**61,324,121**	**(11,804,676)**	**3,989,661,872**
As at 31 December 2015	3,631,876,702	67,270,860	(9,552,087)	3,689,595,475

The movement in the impairment allowance for long term investments in finance lease is shown below:

	2016	2015
At the beginning of the year	**9,552,087**	3,846,739
Impairment charge for the year	**2,252,589**	5,705,348
At the end of the year	**11,804,676**	9,552,087

(Saudi Riyals)

8. DEFERRED ORIGINATION FEES

Deferred origination fees comprises of the unamortized portion of commission paid to Arab National Bank, a shareholder for deals originated through the use of its infrastructure, resources and client base. This fees is amortized using the effective rate method over the period of the respective lease contracts.

	2016	2015
Deferred origination fees	**33,798,344**	34,147,831
Less: Current portion	**(3,155,782)**	(3,001,807)
Non-current portion	**30,642,562**	31,146,024

The movement in the deferred origination fees is shown below:

	2016	2015
At the beginning of the year	**34,147,831**	35,586,184
Origination Fees incurred for the year	**3,326,239**	1,715,502
Origination charge for the year	**(3,675,726)**	(3,153,855)
At the end of the year	**33,798,344**	34,147,831

9. RELATED PARTY TRANSACTIONS

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The Company, in its ordinary course of business transacts with the following related parties. The terms of those billings and charges are on an agreed basis with these related parties :

Name	Relationship
Arab National Bank	Shareholder
Afwaf Investment Company	Affiliate

The significant transactions during the year and the related amounts are as follows:

	2016	2015
Loan obtained from a shareholder (Note 15)	**2,425,480,595**	2,383,866,987
Tawaruq financing charges (Note 15)	**97,065,687**	75,469,903
Service Fees, net (Note 9a)	**13,025,411**	14,378,614
Deferred origination fees paid (Note 8)	**3,326,239**	1,715,502
Rent charged by an affiliate	**1,882,090**	1,578,605

As part of the Asset Sale Agreement and the Board of Directors resolutions, Arab National Bank (ANB) has signed a Service Agreement with the Company and has appointed ANB to render administrative services in relation to the sold investments. Service fees earned during the year ended 2016 is 14.72 million (SR 16.3 million during the year ended 2015) with related expenses amounting to SR 1.7 million (SR 1.9 million during the year ended 2015).

(Saudi Riyals)

9. RELATED PARTY TRANSACTIONS (CONTINUED)

Due from related parties, is comprised of the following:

	2016	2015
Arab National Bank	**1,166,342**	2,607,061
Total	**1,166,342**	2,607,061

Compensation of directors and other key management personnel

The company considers Chief executive officer, Chief operating officer and Chief financial officer as key management personnel.

	2016	2015
Salary	**3,425,592**	3,544,344
End of service benefits	**285,466**	295,362
Other allowances	**1,744,249**	1,721,183
Total	**5,455,307**	5,560,889

10. PREPAID EXPENSES AND OTHER ASSETS, NET

Prepaid expenses and other assets comprised of the following:

	2016	2015
Insurance claims	**13,420,404**	14,679,037
Advance tax	**3,955,369**	3,620,561
Legal claim	**1,018,356**	1,018,356
Prepaid rent	**561,985**	559,040
Prepaid GIB facility fees	**1,537,500**	1,987,500
Prepaid software maintenance	**195,725**	579,243
Employees' advances and receivables	**95,409**	65,841
Others	**39,185**	71,007
Total before provision	**20,823,933**	22,580,585
Allowance for:		
Insurance claim recoverable	**(2,082,371)**	(2,395,606)
Provision for doubtful debts	**(1,018,356)**	(1,018,356)
Net	**17,723,206**	19,166,623

11. ADVANCES TO PROPERTY OWNERS

This balance represents the amounts of certified cheques issued under the property owners' name, for the purchase of properties for SHL's Ijara Contracts (approved deals) and for which the transfer of title deeds, in the name of SHL, is in process. Risk and reward of such Ijara contracts are not transferred as at the date of statement of financial position.

(Saudi Riyals)

12. SHARE CAPITAL

Capital is divided into 80 million shares of SAR 10 each as of 31 December 2016 which is held as follows:

	No. of shares	Share capital
Arab National Bank	**32,000,000**	320,000,000
Dar Al Arkan Real Estate Development Company	**12,000,000**	120,000,000
Kingdom Installment Company	**7,200,000**	72,000,000
Youssef bin Abdullah Al Shalash	**6,400,000**	64,000,000
Tareq Mohammad Al Jarallah	**4,800,000**	48,000,000
Hathlool Bin Saleh Al Hathlool	**4,800,000**	48,000,000
International Finance Corporation	**4,000,000**	40,000,000
Abdulatif Bin Abdullah Al Shalash	**4,000,000**	40,000,000
Inma Almadaen Company	**3,200,000**	32,000,000
Daem Al Khaleej Company	**1,600,000**	16,000,000
Total	**80,000,000**	**800,000,000**

Capital Management

The company has a capital base consisting of initial capital subscribed by above-mentioned shareholders in 2008, together with its retained earnings since then.

It raised Tawaruq financing to fund long term investments in finance lease and to help achieve the differential between cost of funds and financing income from net investment in finance lease.

The company is meeting its objectives for managing capital by ensuring a profitable basis for all its operations, thus increasing retained earnings and preserving its capital base. There are no regulatory restrictions imposed on the company.

13. STATUTORY RESERVE

In accordance with the Company's Bye-laws, 10% of the annual net income is required to be transferred to a statutory reserve until this reserve equals 50% of the capital. This reserve is not available for dividend distribution.

14. GENERAL RESERVE

On Rajab 29, 1433H (corresponding to June 19, 2012), the shareholders agreed to establish a general reserve by the appropriation of 10% of the annual net income, until the reserve equals 30% of the share capital.

15. TAWARUQ FINANCING FACILITIES

This item represents the Tawaruq financing facilities from Arab National Bank (shareholder) and Gulf International Bank to finance the long term investments in finance lease. Arab National Bank facilities are secured by promissory notes, transfer of certain property title deeds ownership and assignment of contracts and proceeds from long term investments in finance lease covering 105% of the outstanding facilities amounting to SR 2,608,107,820 in favor of the bank. These facilities bear finance charges at 6 months SIBOR plus annual profit margin ranging from 2% to 2.5%. Twenty percent of these facilities will be repaid in eight to ten equal semi-annual installments started from 2012 whereas the remaining eighty percent will be due and paid at facility maturity date.

(Saudi Riyals)

15. TAWARUQ FINANCING FACILITIES (CONTINUED)

In their meetings held on March 27, 2014, and July 7, 2014 respectively, the Board of Directors in accordance with the provisions of Article 24 of the Company's Bylaws resolved for the Company to enter into an Asset Sale Agreement with Arab National Bank to sell long term investments in finance lease with a carrying value of SR 706.5 million represented by 1,404 deals in settlement of facilities equal to the carrying value of these long term investments in finance lease. This comprised of three transactions executed on March 27, 2014, May 22, 2014, and July 20, 2014 respectively.

Gulf International Bank facility signed and started on June 2015, it is a Murabaha facility for a period of 5 years; 20% of which will be repaid in 10 equal semi-annual payments and the remaining 80% will be repaid as a lump sum on the final maturity date. The facility is secured through the issuance of promissory notes and against contract receivables covering 120% amounting to SR 349,569,451 of the finance amount. The facility bears a finance charge of 6 months SIBOR plus a profit margin of 1.95%

	2016	2015
Current portion of facilities	**245,081,492**	492,500,270
Non-current portion of facilities	**2,469,616,504**	1,989,366,717
Total excluding Accrued financial charges	**2,714,697,996**	2,481,866,987
Accrued Tawaruq financing charges	**4,404,701**	3,372,530
Total including financial charges	**2,719,102,697**	2,485,239,517

Loan from ANB is SAR 2,425,480,595 (2015: 2,387,123,971) and from GIB is SAR 293,622,102 (2015: 98,115,547)

The finance charge expensed during 2016 is as follows:

	2016	2015
ANB Tawaruq Facility	**97,065,687**	75,494,749
GIB Tawaruq Facility	**11,350,553**	1,757,763
Total Finance Charge	**108,416,240**	77,252,512

Detail of the facilities and outstanding balance thereon is as follows:

Maturity date		**Facility amount**	**Outstanding balance**	**Current portion**	**Non-current portion**
January 2017	ANB	247,000,000	96,182,998	96,182,998	-
June 2021	ANB	500,000,000	266,237,659	10,866,843	255,370,816
March 2022	ANB	500,000,000	358,723,987	26,791,520	331,932,467
June 2022	ANB	650,000,000	444,146,012	38,773,793	405,372,219
December 2018	ANB	200,000,000	177,679,369	9,872,370	167,806,999
April 2019	ANB	500,000,000	449,642,395	25,000,000	424,642,395
April 2019	ANB	150,000,000	132,406,335	6,620,467	125,785,868
January 2020	ANB	206,696,969	201,529,545	10,334,848	191,194,697
January 2021	ANB	350,000,000	298,932,295	9,421,252	289,511,043
May 2020	GIB	300,000,000	293,622,102	15,622,102	278,000,000
		3,603,696,969	**2,719,102,697**	**249,486,193**	**2,469,616,504**

(Saudi Riyals)

15. TAWARUQ FINANCING FACILITIES (CONTINUED)

Tawaruq financing facilities are scheduled for repayment as follows:

Year	2016	2015
2016	--	495,872,800
2017	**249,486,193**	1,034,434,485
2018	**282,671,606**	233,426,866
2019	**602,053,138**	552,808,398
2020	**321,434,891**	168,696,968
2021	**656,324,377**	--
2022	**607,132,492**	--
	2,719,102,697	2,485,239,517

16. ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities comprised of the following:

	2016	2015
Provision for maintenance on finance lease contracts	**306,391**	1,296,815
Accrued insurance	**1,091,860**	--
Employees' related expenses	**4,786,785**	4,807,200
Accrued brokerage fees	**122,460**	255,604
Accrued legal and consultation fees	**375,000**	457,714
Others	233,157	536,503
Total	6,915,653	7,353,836

Provision for maintenance on finance lease contracts represent a provision for maintenance claims of houses and apartments financed through finance lease contracts.

17. PROVISION FOR END OF SERVICE BENEFITS

	2016	2015
Balance, beginning of the year	**3,815,850**	**3,044,318**
Provision for the year	**1,320,951**	**1,217,605**
Payments during the year	(187,552)	**(446,073)**
Balance, end of the year	4,949,249	**3,815,850**

18. GENERAL AND ADMINISTRATIVE EXPENSES

	2016	2015
Employees' salaries and other benefits	**30,476,061**	28,217,295
Depreciation and amortization	**2,795,784**	2,114,447
Rent	**2,751,055**	2,649,524
Consultation fees	**1,719,995**	1,943,702
Repairs and Maintenance	**414,964**	365,567
Telecommunication	**656,500**	612,555
Travel	**850,824**	772,148
Provision for lease losses (Note 7)	**2,252,589**	4,450,145
Recruitment related expenses	**118,646**	153,408
Printing and stationary	**150,443**	103,875
Withholding tax	**39,462**	43,823
Others	**2,431,503**	1,583,635
	44,657,826	43,010,124

19. SELLING AND MARKETING EXPENSES

	2016	2015
Insurance expenses	**12,501,780**	12,445,327
Evaluation fees	**1,981,850**	1,140,800
Sales, collection & title transfer commission	**3,000,062**	1,952,917
Origination expenses	**3,675,726**	3,153,855
Marketing expenses	**2,486,873**	1,847,435
Others	**126,963**	228,772
	23,773,254	20,769,106

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's activities are exposed to a variety of financial risks which mainly include market risk, credit risk and liquidity risk. The Board of Directors of the Company has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board is also responsible for developing and monitoring the Company's risk management policies.

- **Credit risk:** Is the risk that one party will fail to fulfil an obligation and will cause the other party to incur a financial loss. The company seeks to reduce its credit risk with respect to customers by regular monitoring of outstanding receivables.
- Concentrations of credit risk arise when a number of counter-parties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographical location.
- The Company monitors its credit risk exposure through attempting to diversify its leasing activities to ensure that there is no undue concentration of risk with individuals or groups of customers in specific locations or businesses.
- The credit risk on gross amounts due in relation to the long term investments in finance lease is mitigated by the retention of title on leased assets.
- Long term investment in finance lease is receivable from customers and insurance claims are receivable from insurance company which have no credit rating available.
- Bank balances and due from related parties are with banks having credit rating of "A-" as compared to "A" in last year as per Fitch Ratings.
- **Currency risk:** is the risk of changes in the value of financial instruments due to changes in exchange rates for foreign currencies; the transactions of the company are essentially in Saudi Riyals. Management believes that the currency risk is not substantial.

The Company follows a credit classification mechanism as a tool to manage the quality of credit risk of the lease portfolio. The Company grades the individual customer based on both subjectivity and payment history taking into consideration factors such as customer credit standing, financial strength, and security and quality of management. The Company monitors customers' grading on a regular basis.

(Saudi Riyals)

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

The table below shows the gross maximum exposure to credit risk for the components of the balance sheets:

	2016	2015
Bank balances (Note 3b)	**34,729,558**	8,200,836
Long term investments in finance lease (Note 7)	**3,989,661,872**	3,689,595,475
Advances to property owners	**6,943,000**	4,492,000
Due from related parties	**1,166,342**	2,607,061
Insurance claims	13,420,404	14,679,037
	4,045,921,176	3,693,428,684

Past due but not impaired – Net investment in finance lease

	2016	2015
Past due up to 30 days	**1,187,085,586**	732,054,078
Past due 31 – 60 days	**351,931,886**	280,181,312
Past due 61 – 90 days	**64,360,703**	60,968,065
	1,603,378,175	1,073,203,455

Liquidity risk

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

Management monitors the maturity profile of the Company's assets and liabilities based on the remaining period at the balance sheet date to the contractual maturity date to ensure that adequate liquidity is maintained. All liabilities other than end of service benefits are contractually payable on a current basis. The table below shows an analysis of financial assets and liabilities according to when they are expected to be recovered or settled.

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted repayment obligations. The contractual maturities of the liabilities have been determined based on the remaining period at the statement of financial position date to the contractual maturity date and do not take into account the effective expected maturities.

	Less than 12 months	**More than 12 months**	**2016**	Less than 12 months	More than 12 months	2015
Assets						
Cash and bank balances	**34,729,558**	--	**34,729,558**	8,200,836	--	8,200,836
Long term investments in finance lease	**255,703,179**	**3,745,763,369**	**4,001,466,548**	222,624,730	3,476,522,832	3,699,147,562
Unearned Finance Income*	**255,118,260**	**2,054,549,007**	**2,309,667,267**	244,440,341	1,891,591,258	2,136,031,599
Prepaid expenses and other assets	**17,723,206**	--	**17,723,206**	21,562,229	--	21,562,229
Deferred origination fees	**3,155,782**	**30,642,562**	**33,798,344**	3,001,807	31,146,024	34,147,831
Advances to property owners	**6,943,000**	--	**6,943,000**	4,492,000	--	4,492,000
Due from related parties	**1,166,342**	--	**1,166,342**	2,607,061	--	2,607,061
Total assets	574,539,327	5,830,954,938	6,405,494,265	506,929,004	5,399,260,114	5,906,189,118

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

	Less than 12 months	More than 12 months	2016	Less than 12 months	More than 12 months	2015
Liabilities						
Tawaruq financing facilities	**249,486,193**	**2,469,616,504**	**2,719,102,697**	492,500,270	1,989,366,717	2,481,866,987
Financial charges**	**101,199,677**	**322,274,012**	**423,473,689**	108,416,240	423,473,689	531,889,929
Accounts payable	**754,933**	--	**754,933**	2,690,546	--	2,690,546
Advance payments received from customers	**14,540,008**	--	**14,540,008**	13,970,160	--	13,970,160
Accrued expenses and other liabilities	**6,915,653**	--	**6,915,653**	13,121,972	--	13,121,972
Provision for Zakat and income tax	**6,441,752**	--	**6,441,752**	7,847,553	--	7,847,553
Provision for end-of-service indemnities	--	**4,949,249**	**4,949,249**	--	3,815,850	3,815,850
Total liabilities	**379,338,216**	**2,796,839,765**	**3,176,177,981**	638,546,741	2,416,656,256	3,055,202,997
Net	**195,201,111**	**3,034,115,173**	**3,229,316,284**	(131,617,737)	2,982,603,858	2,850,986,121

* This represent finance income on long term investment in finance lease from the date of statement of financial position to the contractual maturity of long term investment in finance lease

**This represent finance charge on Tawaruq financing facilities from the date of statement of financial position to the contractual maturity of Tawaruq financing facilities.

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 commission rates, foreign exchange rates, and equity prices.

The company has no significant exposure in relation to the foreign currency as all assets and liabilities are denominated in Saudi Riyals.

The following table depicts the sensitivity to a reasonable possible change in commission rates, with other variables held constant, on the Company's statement of income or equity.

			Sensitivity of equity		
	Increase/ decrease in basis points	**Sensitivity of finance charges**	**12 months or less**	**More than 12 Months**	**Total**
Tawaruq Financing Facilities	+10	10,047,173	2,400,501	7,646,672	**10,047,173**
	-10	(10,047,173)	(2,400,501)	(7,646,672)	**(10,047,173)**

(Saudi Riyals)

21. PROVISION FOR ZAKAT AND INCOME TAX

The significant components of the Zakat base of the Company for the year ended December 31 which are subject to certain adjustments under Zakat and income tax regulations are principally comprised of the following:

	2016	2015
Share capital	**800,000,000**	800,000,000
Adjusted income for the year	**103,830,330**	127,022,001
Provisions	**16,537,994**	11,645,647
Tawaruq financing facility	**2,654,818,896**	2,481,866,987
Statutory & General reserves	**88,657,248**	64,538,656
Long term investments in finance lease	**(3,989,661,872)**	(3,663,449,750)
Property and equipment, net	**(18,691,753)**	(19,287,655)
Retained earnings	**360,379,709**	271,850,007
Other additions to Zakat base	**--**	22,679
Other deductions from Zakat base	**(43,155,211)**	(37,819,226)
	(27,284,659)	36,389,346
Zakat base for Saudi shareholders at 79%	**(21,554,881)**	28,747,583
Zakat provision at 2.5% on the adjusted net income for the year	**2,050,649**	2,508,685

As the Zakat base is less than the adjusted net income, Zakat is calculated based on the adjusted net income.

Income tax	2016	2015
Portion of adjusted net income for non-Saudi shareholders	**21,804,369**	26,674,620
Finance Charges in excess of allowed amount	**474,696**	--
Non-Saudi share of utilized provisions previously added back to the taxable income	**(323,551)**	(93,675)
	21,955,514	26,580,945
Income tax for the year (20%)	**4,391,103**	5,316,189

The movement of the provision for Zakat and income tax is as follows:

	2016	2015
Balance, beginning of the year	**7,847,553**	9,599,222
Provision for the year	**6,441,752**	7,824,874
Prior Year Adjustment	**(79,967)**	199,769
Income tax adjustment	**--**	(3,031,734)
Payment during the year	**(7,767,586)**	(6,744,578)
Balance, end of the year	**6,441,752**	7,847,553

The Company has filed its Zakat and income tax returns for the years from 2008 up to 2015. During 2014 the Company received the final assessments in respect of the years from 2008 to 2011 requesting an additional Zakat liability amounting to SR 45,638,701. However, the Company has filed an appeal against this assessment with the Preliminary Zakat and Tax Objection Committee (PZTOC). Such liability is primarily due to disallowing the deduction of the investments in finance leases from the Zakat base of the Company.

(Saudi Riyals)

21. PROVISION FOR ZAKAT AND INCOME TAX (CONTINUED)

The appeal with PZTOC was rejected and subsequently in 2015, the Company has filed another appeal to the Higher Appeals Committee of GAZT. An unfunded bank guarantee amounting to SR 45,638,701(2015: SR 45,638,701) was also provided to GAZT as per the routine requirements for appeals to the Higher Appeals Committee in relation to the additional Zakat assessments for those years. The Company has also paid a sum of SR 171,575 for the tax differences in 2015.

Based on the assessment of the Company and its independent Zakat and income tax advisor, the management of the Company does not see the need to record any additional provision. Management is confident of a favourable outcome on the aforementioned appeals and has, therefore, not made any provision in respect of above amount. The Company's shareholders believe that adequate provision for Zakat, income tax and withholding tax have been booked in the financial statements for current year and prior years.

The assessments for the years 2012 to 2015 are yet to be raised by the GAZT. However, if long-term investments in finance lease are disallowed and is added to the Zakat base, in line with the assessments finalized by GAZT for the years referred to above, it would result in significant additional zakat exposure to the company which remains an industry wide issue and disclosure of which might affect the company's position in this matter.

22. BASIC AND DILUTED EARNINGS (LOSS) PER SHARE

Basic and diluted earnings per share for the years ended 31 December 2016 and 31 December 2015 have been computed by dividing the net income for the relevant periods by the weighted average number of issued outstanding shares for the years ended 31 December 2016 and 31 December 2015, respectively. The relevant average is 80,000,000 for the years ended December 31, 2016 and 2015.

23. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All financial assets (including lease receivables) and financial liabilities are measured at amortized cost. The carrying amounts of all financial assets and financial liabilities measured at amortized cost approximate their fair values except for net investments in finance leases. Tawarq financing facilities bear floating rate of interest based on SIBOR and hence, there is no difference between the carrying value and fair value. The fair value of net investments in finance leases as at 31 December 2016 are as follows:

Financial Statement Caption	**Fair value hierarchy**	**Amount**
Net investments in finance leases	Level 3	**3,974,358,031**

The fair value of net investment in finance lease is determined using discounted cash flow technique considering the market rates. The market rates are determined based on the risk profile of lease receivables and current interest rates.

24. COMMITEMENT AND CONTINGENCIES

The Company has contingencies related to outstanding letter of guarantee issued by the Company in its normal course of business amounting to SR 45,638,701 (2015: SR 45,638,701) issued in favor of GAZT related to the Zakat and tax assessments raised for previous years.

The Company faces during its normal activity some lawsuits and other claims related to the nature of its activity, however, significant claims are not expected to result from the outstanding lawsuits as at the financial statements date.

25. COMPARATIVE FIGURES

Where applicable, accrued finance income on net investment in finance lease and accrued finance charges on Tawaruq financing facilities have been included in the carrying value of the net investment in finance lease and Tawaruq financing facilities respectively, to better reflect the amortised cost of the net investment in finance lease and Tawaruq financing facilities for 2015 and to conform with the presentation in current year.

26. ACCOUNTING STANDARD ISSUED BUT NOT YET EFFECTIVE

The Company has chosen not to early adopt the following new standards which have been issued but not yet effective for the Company's accounting years beginning on or after 1 January 2017 and is currently assessing their impact.
Following is a brief on the new IFRS and amendments to IFRS, effective for annual periods beginning on or after January 01, 2017:

- IFRS 9 – "Financial instruments", applicable for the annual periods beginning on or after 1 January 2018, and will be applied retrospectively with some exemptions. The new standard presents revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment.

- IFRS 15 -- "Revenue from contracts with customers", applicable for the annual periods beginning on or after 1 January 2017. The new standard presents a five-step model to determine when to recognize revenue, and at what amount. The application of this standard will have a significant impact on how and when you recognize revenue, with new estimates and judgments, and the possibility of revenue recognition being accelerated or deferred.

- Amendments to IAS 7 – "Statement of Cash Flows", applicable for the annual periods beginning on or after 1 January 2017. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

- Amendments to IAS 12 – "Income Taxes", applicable for the annual periods beginning on or after 1 January 2017. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. Therefore, assuming that the tax base remains at the original cost of the debt instrument, there is a temporary difference.

- Amendments to IFRS 2 -- "Share-based Payment", applicable for the period beginning on or after 1 January 2018. The amendments cover classification and measurement of three accounting areas, first, measurement of cash-settled share-based payments, second, classification of share-based payments settled net of tax withholdings, and third, accounting for a modification of a share-based payment from cash-settled to equity-settled.

26. ACCOUNTING STANDARD ISSUED BUT NOT YET EFFECTIVE (Continued)

- IFRS 16 – "Leases", applicable for the period beginning on or after 1 January 2019. The new standard eliminates the current dual accounting model for lessees under IAS 17, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, IFRS 16 proposes on-balance sheet accounting model.
- IFRS 9 Financial Instruments will be effective from 1 January 2018 and will replace IAS 39 by building models using internal and external experts. The Group will recognize loss allowances based on Expected Credit Loss (ECL) considering forward-looking information.

Setting framework with detailed policies and controls including roles and responsibilities will be implemented. The Group is in the process of evaluating how the new ECL model will impact its ongoing regulatory capital structure planning and further details will be provided once the assessment is complete.

27. GENERAL

The figures in these financial statements are rounded to the nearest Saudi riyal.

28. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Board of Directors on 19 February 2017.