

SAUDI HOME LOANS COMPANY (SHL)
(A Saudi Closed Joint Stock Company)

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015
TOGETHER WITH INDEPENDENT AUDITORS' REPORT

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INDEPENDENT AUDITORS' REPORT

**TO: THE SHAREHOLDERS OF SAUDI HOME LOANS (SHL)
(A Saudi Joint Stock Company)
Riyadh, Kingdom of Saudi Arabia**

Scope of Audit: We have audited the accompanying financial statements of "SAUDI HOME LOANS" (A Saudi Joint Stock Company) (The "Company") which comprise the statement of financial position as at 31 December 2015, and the related statements of profit and loss and other comprehensive income, changes in shareholders' equity and cash flows for the year then ended and the related notes (1) to (28) which form an integral part of these financial statements. These financial statements are the responsibility of the Company's management and have been prepared by them in accordance with International Financial Reporting Standards (IFRSs), the provisions of Article (123) of the Regulations for Companies and the Company's By-laws and is submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit also includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Unqualified Opinion: In our opinion the financial statements taken as a whole:

1. Present fairly, in all material respects, the financial position of the Company as at 31 December 2015 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).
2. Comply with the requirements of the Regulation for Companies and the Company's By-laws in so far as they affect the preparation and presentation of the financial statements.

Emphasis of matters:

1. 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 Organization for Certified Public Accounts.
2. The financial statements of Saudi Home Loans for the year ended December 31, 2014 were audited by another auditor who expressed an unqualified opinion on those financial statements on March 15, 2015.



**AlAzem & AlSudairy
Certified Public Accountants**



**Abdullah M. AlAzem
License No. 335**

13 Jumadal Al-Aker, 1437H (March 22, 2016)
Al Riyadh, Saudi Arabia

SAUDI HOME LOANS COMPANY (SHL)
(A Saudi Closed Joint Stock Company)
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2015
(Saudi Riyals)

	December 31, 2015	December 31, 2014	January 1, 2014
ASSETS			
Cash and cash equivalents (Notes 3b and 4)	8,200,836	2,827,136	67,297,336
Accrued finance lease income receivable	26,145,725	20,889,586	22,780,793
Prepaid expenses and other assets, net (Note 10)	21,562,229	10,200,513	7,617,126
Advances to property owners (Note 11)	4,492,000	39,144,200	54,387,506
Due from related parties (Note 9)	2,607,061	1,427,358	749,436
Non-current assets held for sale (Note 3g)	224,685	272,385	272,385
Intangible assets, net (Notes 3c and 5)	6,070,215	231,171	441,671
Long term Investment (Notes 3d & 7)	3,663,449,750	3,554,180,594	3,363,159,198
Deferred origination fees (Notes 3k & 8)	34,147,831	35,586,184	29,445,224
Property and equipment, net (Note 3j and 6)	5,369,726	8,742,449	6,437,942
Total assets	3,772,270,058	3,673,501,576	3,552,588,617
LIABILITIES AND SHAREHOLDERS' EQUITY			
Accounts payable	2,690,546	2,071,326	4,109,503
Accrued expenses and other liabilities (Notes 3l & 16)	13,121,972	31,854,091	15,196,043
Advance lease rental	13,970,160	11,965,743	37,807,558
Due to related parties	-	-	244,717
Provision for estimated Zakat and income tax (Notes 3o and 21)	7,847,553	9,599,222	7,285,897
Tawaruq financing facilities (Note 15)	2,481,866,987	2,478,578,213	2,454,728,548
End of service benefits (Note 3n and 17)	3,815,850	3,044,318	2,175,266
Total liabilities	2,523,313,068	2,537,112,913	2,521,547,532
Shareholders' Equity:			
Share capital (Note 12)	800,000,000	800,000,000	800,000,000
Statutory reserve (Note 13)	48,075,877	36,016,581	24,771,371
General reserve (Note 14)	40,581,371	28,522,075	17,276,865
Retained earnings	360,299,742	271,850,007	188,992,849
Total shareholders' equity	1,248,956,990	1,136,388,663	1,031,041,085
Total liabilities and shareholders' equity	3,772,270,058	3,673,501,576	3,552,588,617

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 DECEMBER 31, 2015
(Saudi Riyals)

	<u>2015</u>	<u>2014</u>
Lease finance income (Note 3q)	244,774,527	231,792,040
Service fees, net (Note 3q)	14,378,614	9,444,754
Financing charges	<u>(77,252,512)</u>	<u>(75,575,658)</u>
Net lease finance income	181,900,629	165,661,136
Application and evaluation fee income (Note 3q)	<u>2,346,685</u>	<u>5,923,800</u>
Total operating income	184,247,314	171,584,936
General and administrative expenses (Notes 3r and 18)	<u>(43,010,124)</u>	<u>(37,168,329)</u>
Selling and marketing expenses (Note 3r and 19)	<u>(20,769,106)</u>	<u>(21,981,828)</u>
Net operating income	120,468,084	112,434,779
Other income	<u>124,881</u>	<u>17,316</u>
Net income for the year	<u>120,592,965</u>	<u>112,452,095</u>
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 period	<u>120,592,965</u>	<u>112,452,095</u>
Basic and diluted earnings per share (Note 22)	<u>1.51</u>	<u>1.41</u>

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 DECEMBER 31, 2015
(Saudi Riyals)

	2015	2014
Cash Flows from Operating Activities		
Net profit for the year	120,592,965	112,452,095
Adjustments to reconcile net profit to net cash provided by operating activities:		
Depreciation	1,423,102	1,114,374
Amortization	691,345	210,500
Gain on sale of property and equipment	-	(17,316)
Provision for end of service benefits	1,217,605	994,384
Provision for lease losses	5,705,348	2,085,943
Changes in assets and liabilities:		
Net change in finance lease investments	(114,974,504)	(193,107,339)
Net change in related party balances	(1,179,703)	(922,639)
Prepaid expenses and other assets	(11,361,716)	(5,074,626)
Advances to property owners	34,652,200	15,243,306
Accrued finance lease income receivable	(5,256,139)	1,891,207
Accrued expenses and other liabilities	(18,732,119)	16,658,048
Property available for sale	47,700	-
Advance lease rental	2,004,417	(25,841,815)
Accounts payable	619,220	(2,038,177)
Net change in deferred origination fees	1,438,353	(6,140,960)
End of service benefits paid	(446,073)	(125,332)
Zakat and income tax paid	(9,776,312)	(2,299,953)
Net cash provided by operating activities	6,665,689	(84,918,300)
Cash Flows from Investing Activities		
Purchase of property and equipment	(4,588,883)	(3,418,881)
Proceeds from sale of property and equipment	8,120	17,316
Net cash used in investing activities	(4,580,763)	(3,401,565)
Cash Flows from Financing Activities		
Net change in tawaruq financing facilities	3,288,774	23,849,665
Net cash provided by financing activities	3,288,774	23,849,665
Net increase in cash and cash equivalents	5,373,700	(64,470,200)
Cash and cash equivalents at the beginning of the year	2,827,136	67,297,336
Cash and cash equivalents at the end of the year	8,200,836	2,827,136
Non-cash transactions		
Capital work in progress transferred to intangible assets and property and equipment	9,032,746	50,000

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 DECEMBER 31, 2015
(Saudi Riyals)

	For the year ending December 31, 2014				
	Capital	Statutory reserve	General reserve	Retained earnings	Total Shareholders' Equity
Beginning of the year	800,000,000	24,771,371	17,276,865	188,992,849	1,031,041,085
Net income for the year	-	-	-	112,452,095	112,452,095
Transfers to reverses	-	11,245,210	11,245,210	(22,490,420)	-
Zakat and income tax	-	-	-	(7,104,517)	(7,104,517)
	<u>800,000,000</u>	<u>36,016,581</u>	<u>28,522,075</u>	<u>271,850,007</u>	<u>1,136,388,663</u>
	For the year ending December 31, 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 adjustment	-	-	-	(8,024,638)	(8,024,638)
	<u>800,000,000</u>	<u>48,075,877</u>	<u>40,581,371</u>	<u>360,299,742</u>	<u>1,248,956,990</u>

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)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

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). For all periods up to and including the year ended 31 December 2014, the Company prepared its financial statements in accordance with accepted accounting standards generally accepted in the Kingdom of Saudi Arabia comprise accounting standards issued by the Saudi Organization for Certified Public Accountants ("SOCPA") (hereinafter referred to as "Local GAAP"). These financial statements for the year ended 31 December 2015 are the first the Company has prepared in accordance with IFRS. Refer to Note 3.q for information on how the Company adopted IFRS. 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) allowance for potential lease and other loan losses;
- (c) provisions;
- (d) recognition of taxation and Zakat;
- (e) accounting for termination benefits; and
- (f) impairment.

SAUDI HOME LOANS COMPANY (SHL)
(A Saudi Closed Joint Stock Company)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

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 19 Defined Benefit Plans: Employee Contributions. IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans.

Annual improvements 2010-2012 cycle

- IFRS 2 Share-based Payment - This improvement clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions.
- IFRS 3 Business Combinations - The amendment clarifies the scope exceptions within IFRS 3 and that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable).
- IFRS 8 Operating Segments - The amendments clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8 and the reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.
- IAS16 Property, Plant and Equipment and IAS 38 Intangible Assets – The amendment clarifies that the asset may be re-valued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.
- IAS 24 Related Party Disclosures - The amendment clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures and an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual improvements 2011-2013 cycle

- IFRS 3 Business Combinations - The amendment clarifies for the scope exceptions within IFRS 3 that joint arrangements, not just joint ventures, are outside the scope of IFRS 3. This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.
- IFRS 13 Fair Value Measurement - The amendment clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

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.

SAUDI HOME LOANS COMPANY (SHL)
(A Saudi Closed Joint Stock Company)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) 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 estimated useful live for the current and comparative years is as follows:

Computer software 3-5 years.

d) Finance lease investments--

Finance lease investments represent notes receivable from customers on finance lease. Leases are classified as finance lease whenever the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee .

e) Provision for lease losses--

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 or 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.

f) Other provision --

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.

g) Non-current asset held for sale --

The Company classifies a non-current asset, if any, as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. A non-current asset held for sale is carried at the lower of its carrying amount and the fair value less costs to sell. Impairment losses are recognised in the statement of profit or loss for any initial or subsequent write down of the non-current asset to fair value less costs to sell. Subsequent gains in fair value less costs to sell are recognised to the extent they do not exceed the cumulative impairment losses previously recorded. A non-current asset is not depreciated while classified as held for sale.

SAUDI HOME LOANS COMPANY (SHL)
(A Saudi Closed Joint Stock Company)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Financial instruments

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

Financial assets are derecognised when the Company loses control of the contractual rights that comprise the financial assets. Financial liabilities are derecognised when they are extinguished, that is, when the obligation specified in the contract is discharged, cancelled, or expires.

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.

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.

SAUDI HOME LOANS COMPANY (SHL)
(A Saudi Closed Joint Stock Company)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Financial instruments (Continued)

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.

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.

SAUDI HOME LOANS COMPANY (SHL)
(A Saudi Closed Joint Stock Company)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) 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.

j) 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. Rates of depreciation used for property and equipment are as follows:

	<i>Rate</i>
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 balance sheet date. Intangible assets having definite lives are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Amortisation is charged as disclosed in note applying the straight-line method over the useful lives of the assets.

k) Deferred origination fees--

Deferred origination fees comprises of the unamortized portion of commission paid to a shareholder for deals originated through their channel. This fees is amortized using the straight-line method over the period of the respective lease contracts.

l) Accrued expenses and other liabilities --

Accrued expenses and other liabilities include rent received from customers in advance, security deposits and unapplied receipts from the customers.

SAUDI HOME LOANS COMPANY (SHL)
(A Saudi Closed Joint Stock Company)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m) 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.

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.

n) End of service benefits --

End of service benefits, as required by Saudi Arabian Labour Law, are provided in the financial statements based on the employees' length of service.

SAUDI HOME LOANS COMPANY (SHL)
(A Saudi Closed Joint Stock Company)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o) Estimated Zakat and income tax --

The Company is subject to the Regulations of the Directorate of Zakat and Income Tax ("DZIT") 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.

p) Provisions --

A provision is made when the Company has a legal or constructive obligation as a result of a past event 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.

q) 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 .

Service fees are accrued on a time proportionate basis, as the services are rendered and are recorded net of related expenses.

r) 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.

s) 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.

t) 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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

u) First-time adoption of IFRS --

These financial statements, for the year ended 31 December 2015, are the first the Company has prepared in accordance with IFRS. For periods up to and including the year ended 31 December 2014, the Company prepared its financial statements in accordance with Local GAAP. Accordingly, the Company has prepared financial statements, which comply with IFRS applicable for periods ending on or after 31 December 2015, together with the comparative period data as at and for the year ended 31 December 2014, as described in the summary of significant accounting policies. In preparing these financial statements, the Company's opening statement of financial position was prepared as at 1 January 2014, the Company's date of transition to IFRS. This note explains the principal adjustments made by the Company in restating its Local GAAP financial statements, including the statement of financial position as at 1 January 2014 and the financial statements as at and for the year ended 31 December 2014.

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- Reconciliation of statement of financial position as at 1 January 2014 (date of transition to IFRS)

	Local GAAP SR	Remeasurements SR	IFRS as at January 1, 2014 SR
ASSETS			
Cash and cash equivalents	67,297,336	-	67,297,336
Accrued finance lease income receivable	22,780,793	-	22,780,793
Prepaid expenses and other assets, net	7,617,126	-	7,617,126
Advances to property owners	54,387,506	-	54,387,506
Due from related parties	749,436	-	749,436
Non-current assets held for sale	272,385	-	272,385
Intangible assets	-	441,671	441,671
Long term Investment	3,363,159,198	-	3,363,159,198
Deferred origination fees	29,445,224	-	29,445,224
Property and equipment, net	6,879,613	(441,671)	6,437,942
Total assets	3,552,588,617	-	3,552,588,617
LIABILITIES AND SHAREHOLDERS' EQUITY			
Accounts payable	4,109,503	-	4,109,503
Accrued expenses and other liabilities	15,196,043	-	15,196,043
Advance lease rental	37,807,558	-	37,807,558
Due to related parties	244,717	-	244,717
Provision for estimated Zakat and income tax	7,285,897	-	7,285,897
Tawaruq financing facilities	2,454,728,548	-	2,454,728,548
End of service benefits	2,175,266	-	2,175,266
Total liabilities	2,521,547,532	-	2,521,547,532
Shareholders' Equity:			
Share capital	800,000,000	-	800,000,000
Statutory reserve	24,771,371	-	24,771,371
General reserve	17,276,865	-	17,276,865
Retained earnings	188,992,849	-	188,992,849
Total shareholders' equity	1,031,041,085	-	1,031,041,085
Total liabilities and shareholders' equity	3,552,588,617	-	3,552,588,617

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- Reconciliation of statement of financial position as at 31 December 2014.

	Local GAAP SR	Remeasurements SR	IFRS as at December 31, 2014 SR
ASSETS			
Cash and cash equivalents	2,827,136	-	2,827,136
Accrued finance lease income receivable	20,889,586	-	20,889,586
Prepaid expenses and other assets, net	10,200,513	-	10,200,513
Advances to property owners	39,144,200	-	39,144,200
Due from related parties	1,427,358	-	1,427,358
Non-current assets held for sale	272,385	-	272,385
Intangible assets	-	231,171	231,171
Long term Investment	3,554,180,594	-	3,554,180,594
Deferred origination fees	35,586,184	-	35,586,184
Property and equipment, net	8,973,620	(231,171)	8,742,449
Total assets	3,673,501,576	-	3,673,501,576
LIABILITIES AND SHAREHOLDERS' EQUITY			
Accounts payable	2,071,326	-	2,071,326
Accrued expenses and other liabilities	31,854,091	-	31,854,091
Advance lease rental	11,965,743	-	11,965,743
Due to related parties	-	-	-
Provision for estimated Zakat and income tax	9,599,222	-	9,599,222
Tawaruq financing facilities	2,478,578,213	-	2,478,578,213
End of service benefits	3,044,318	-	3,044,318
Total liabilities	2,537,112,913	-	2,537,112,913
Shareholders' Equity:			
Share capital	800,000,000	-	800,000,000
Statutory reserve	36,016,581	-	36,016,581
General reserve	28,522,075	-	28,522,075
Retained earnings	271,850,007	-	271,850,007
Total shareholders' equity	1,136,388,663	-	1,136,388,663
Total liabilities and shareholders' equity	3,673,501,576	-	3,673,501,576

Reconciliation of total comprehensive income for the year ended 31 December 2014

There are no adjustments to the total comprehensive income prepared under the Local GAAP. Therefore, reconciliation to the total comprehensive income in accordance with IFRSs is not being presented.

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- Reconciliation of statement of cash flows for the year ended 31 December 2014

	Local GAAP SR	Remeasurements SR	IFRS as at Dec31, 2014 SR
Cash Flows from Operating Activities			
Net profit for the year	112,452,095	-	112,452,095
Adjustments to reconcile net profit to net cash provided by operating activities:			
Depreciation	1,324,874	(210,500)	1,114,374
Amortization of intangible assets	-	210,500	210,500
Gain on sale of property and equipment	(17,316)	-	(17,316)
Provision for end of service benefits	994,384	-	994,384
Provision for lease losses	2,085,943	-	2,085,943
Changes in assets and liabilities:			
Net change in finance lease investments	(193,107,339)	-	(193,107,339)
Net change in related party balances	(922,639)	-	(922,639)
Prepaid expenses and other assets	(5,074,626)	-	(5,074,626)
Advances to property owners	15,243,306	-	15,243,306
Accrued finance lease income receivable	1,891,207	-	1,891,207
Accrued expenses and other liabilities	16,658,048	-	16,658,048
Advance lease rental	(25,841,815)	-	(25,841,815)
Accounts payable	(2,038,177)	-	(2,038,177)
Net change in deferred origination fees	(6,140,960)	-	(6,140,960)
End of service benefits paid	(125,332)	-	(125,332)
Zakat and income tax paid	(2,299,953)	-	(2,299,953)
Net cash provided by operating activities	(84,918,300)	-	(84,918,300)
Cash Flows from Investing Activities			
Purchase of property and equipment	(3,418,881)	-	(3,418,881)
Proceeds from sale of property and equipment	17,316	-	17,316
Net cash used in investing activities	(3,401,565)	-	(3,401,565)
Cash Flows from Financing Activities			
Net change in tawaruq financing facilities	23,849,665	-	23,849,665
Net cash provided by financing activities	23,849,665	-	23,849,665
Net increase in cash and cash equivalents	(64,470,200)	-	(64,470,200)
Cash and cash equivalents at the beginning of the year	67,297,336	-	67,297,336
Cash and cash equivalents at the end of the year	2,827,136	-	2,827,136

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4. CASH AND CASH EQUIVALENTS

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

	2015 SR	2014 SR
Cash on hand	17,500	23,500
Bank current accounts	8,183,336	2,803,636
	8,200,836	2,827,136

5. INTANGIBLE ASSETS

	2015 SR	2014 SR
Balance, January 1	231,171	441,671
Additions	6,530,389	-
Amortization for the year	(691,345)	(210,500)
Balance, December 31	6,070,215	231,171

6. PROPERTY AND EQUIPMENT, NET

	Leasehold improvements SR	Vehicles SR	Furniture, fixtures and office equipment SR	Computers SR	Work-in- process SR	Total SR
Cost						
January 1, 2015	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)
December 31, 2015	5,180,578	577,701	5,695,702	6,566,374	194,125	18,214,480
Accumulated depreciation						
January 1, 2015	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)
December 31, 2015	2,245,582	421,183	4,399,866	5,778,123	-	12,844,754
Net book value						
December 31, 2015	2,934,996	156,518	1,295,836	788,251	194,125	5,369,726

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6. PROPERTY AND EQUIPMENT, NET (Continued)

	Leasehold improvements SR	Vehicles SR	Furniture, fixtures and office equipment SR	Computers SR	Work-in- process SR	Total SR
Cost						
January 1, 2014	4,134,023	496,051	5,437,581	5,377,402	1,943,690	17,388,747
Additions	15,000	49,800	44,707	615,075	2,744,299	3,468,881
Disposals	-	(48,050)	-	-	-	(48,050)
Transfers	-	-	-	-	(50,000)	(50,000)
December 31, 2014	4,149,023	497,801	5,482,288	5,992,477	4,637,989	20,759,578
Accumulated depreciation						
January 1, 2014	1,612,022	262,794	3,944,828	5,131,161	-	10,950,805
Charge for the year	422,225	92,381	377,403	222,365	-	1,114,374
Disposals	-	(48,050)	-	-	-	(48,050)
December 31, 2014	2,034,247	307,125	4,322,231	5,353,526	-	12,017,129
Net book value						
December 31, 2014	2,114,776	190,676	1,160,057	638,951	4,637,989	8,742,449

7. LONG TERM INVESTMENT

Net investments in the finance lease is summarized below:

	2015 SR	2014 SR
Minimum lease payments:		
Performing leases	5,700,022,320	5,648,087,094
Non-performing leases	109,011,116	54,424,727
Long term investments - Gross	5,809,033,436	5,702,511,821
Unearned finance income	(2,136,031,599)	(2,144,484,488)
Long term investments before provision	3,673,001,837	3,558,027,333
Less: Provision for lease losses	(9,552,087)	(3,846,739)
Long term investments	3,663,449,750	3,554,180,594
Less: Current portion	(186,926,921)	(184,215,312)
Non-current portion	3,476,522,829	3,369,965,282

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.

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7. FINANCE LEASE INVESTMENTS (Continued)

The maturities of MLP, unearned finance income and long term investments before provision as at Dec 31, 2015 are as follows:

Year	2015		2014	
	Minimum lease payments SR	Unearned finance income SR	Long term investments SR	Long term investments SR
Within one year	440,919,346	244,440,341	196,479,005	188,062,050
Year two	436,140,383	230,026,061	206,114,322	196,225,796
Year three	430,453,980	214,978,408	215,475,572	204,504,657
Year four	421,504,199	199,409,182	222,095,017	212,372,435
Year five and later	4,080,015,528	1,247,177,607	2,832,837,921	2,756,862,395
	5,809,033,436	2,136,031,599	3,673,001,837	3,558,027,333

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

	Performing leases, net SR	Non-performing leases, net SR	Provision for lease losses SR	Long term investments SR
As at December 31, 2015:	3,608,169,102	64,832,735	(9,552,087)	3,663,449,750
As at December 31, 2014:	3,525,015,052	33,012,281	(3,846,739)	3,554,180,594

The movement in the provision for lease losses is as follows:

	2015 SR	2014 SR
Balance, January 1	3,846,739	1,760,796
Charge for the year	5,705,348	2,085,943
Balance, December 31	9,552,087	3,846,739

Out of SR 5,705,348 charged for the year, SR 4,450,145 is charged to General and Administrative Expenses (Note 18) and remaining SR 1,255,203 is reclassified from Maintenance commitments on lease contracts provision (Note 16).

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 their channel. This fees is amortized using the straight-line method over the period of the respective lease contracts.

	2015 SR	2014 SR
Deferred origination fees	34,147,831	35,586,184
Less: Current portion	(3,001,807)	(2,944,879)
Non-current portion	31,146,024	32,641,305

Origination fee paid to ANB during the year 2015 is SAR 1,988,740 (2014: SAR 9,139,315)

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9. RELATED PARTY TRANSACTIONS

The Company, in its ordinary course of business transacts with the following related parties. The terms of those billings and charges are similar to the terms of ordinary trade receivables and payables:

<u>Name</u>	<u>Relationship</u>
Arab National Bank	Shareholder
Afwaf Investment Company	Affiliate

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

	<u>2015</u> <u>SR</u>	<u>2014</u> <u>SR</u>
Loan obtained from a shareholder (Note 15)	2,383,866,987	2,478,578,213
Tawaruq financing charges	75,469,903	75,575,658
Service Fees, net	14,378,614	9,444,754
Deferred origination fees (Note 8)	1,988,740	9,139,315
Rent charged by an affiliate	1,578,605	1,578,605

Due from related parties, is comprised of the following:

	<u>2015</u> <u>SR</u>	<u>2014</u> <u>SR</u>
Arab National Bank	2,607,061	1,427,358
Total	<u>2,607,061</u>	<u>1,427,358</u>

Compensation of directors and other key management personnel

	<u>2015</u> <u>SR</u>	<u>2014</u> <u>SR</u>
Total key management benefits	5,560,889	4,971,046
Total	<u>5,560,889</u>	<u>4,971,046</u>

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10. PREPAID EXPENSES AND OTHER ASSETS, NET

Prepaid expenses and other assets comprised of the following:

	2015	2014
	SR	SR
Insurance claims	14,679,037	5,144,927
Advance tax	3,620,561	3,059,929
Legal claim	1,018,356	1,018,356
Prepaid rent	559,040	586,941
Prepaid GIB facility fees	1,987,500	-
Prepaid software maintenance	579,243	378,710
Employees' advances and receivables	65,841	341,146
Others	71,007	822,246
Total before provision	22,580,585	11,352,255
Provision for doubtful debts	(1,018,356)	(1,151,742)
Net	21,562,229	10,200,513

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.

12. SHARE CAPITAL

Capital is divided into 80 million shares of SAR 10 each as of 31 December 2015 are 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

13. STATUTORY RESERVE

In accordance with the Saudi Arabian Companies Regulations and the Company's Articles of Association, 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.

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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. 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 covering 105% of the outstanding facilities 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 starting from 2012 with the last installment due at facility maturity date.

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 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. This comprised of three transactions executed on March 27, 2014, May 22, 2014, and July 20, 2014 respectively.

As part of the Asset Sale Agreement and the Board of Directors resolutions, Arab National Bank has signed a Service Agreement with the Company and has appointed them to render administrative services in relation to the sold investments. Service fees charged during the year 2015 is 16.3 million (SR 10.7 million during the year 2014) with related expenses amounting to SR 1.9 million (SR 1.3 million during the year 2014), which is considered to be at market value for the amount of services provided.

Gulf International Bank facility 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% of the finance amount. The facility bears a finance charge of 6 months SIBOR plus a profit margin of 1.95%

	<u>2015</u> <u>SR</u>	<u>2014</u> <u>SR</u>
Tawaruq financing facilities	2,481,866,987	2,478,578,213
Less: Current portion	(492,500,270)	(154,783,699)
Non-current portion	<u>1,989,366,717</u>	<u>2,323,794,514</u>

Loan from ANB is SAR 2,383,866,987 (2014: 2,478,578,213) and from GIB is SAR 98,000,000 (2014: Nil)

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15. TAWARUQ FINANCING FACILITIES (Continued)

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

<u>Maturity date</u>		<u>Facility amount</u>	<u>Outstanding balance</u>	<u>Current portion</u>	<u>Non-current portion</u>
January 2017	ANB	247,000,000	97,074,607	1,002,956	96,071,651
March 2016	ANB	300,000,000	85,244,179	85,244,179	-
December 2016	ANB	500,000,000	281,466,510	281,466,510	-
September 2017	ANB	500,000,000	378,741,375	20,017,388	358,723,987
December 2017	ANB	650,000,000	533,422,412	29,276,400	504,146,012
December 2018	ANB	200,000,000	187,551,738	9,872,370	177,679,368
April 2019	ANB	500,000,000	474,642,396	25,000,000	449,642,396
April 2019	ANB	150,000,000	139,026,802	6,620,467	132,406,335
January 2020	ANB	206,696,969	206,696,968	30,000,000	176,696,968
May 2020	GIB	300,000,000	98,000,000	4,000,000	94,000,000
		3,553,696,969	2,481,866,987	492,500,270	1,989,366,717

Tawaruq financing facilities are scheduled for repayment as follows:

<u>Year</u>	<u>2015</u> <u>SR</u>	<u>2014</u> <u>SR</u>
2015	-	50,228,785
2016	492,500,270	439,476,023
2017	1,034,434,485	1,011,535,139
2018	233,426,866	197,424,108
2019	552,808,398	645,289,665
2020	168,696,968	134,624,493
	2,481,866,987	2,478,578,213

16. ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities comprised of the following:

	<u>2015</u> <u>SR</u>	<u>2014</u> <u>SR</u>
Maintenance commitments on finance lease contracts	1,296,815	5,200,663
Accrued Tawaruq financing charges	3,372,530	19,771,656
Employees' related expenses	4,807,200	5,516,210
Accrued withholding tax	-	63,421
Accrued brokerage fees	255,604	640,648
Accrued legal and consultation fees	457,714	210,000
Others	2,932,109	451,493
Total	13,121,972	31,854,091

Maintenance commitments on finance lease contracts represent a provision for maintenance claims of houses and apartments financed through finance lease contracts. Difference in Others is due to the reason that during the year Deceased Cases Provision amounting to SR 2,395,606 is reclassified from Maintenance and commitments on finance lease contracts provision.

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17. PROVISION FOR END OF SERVICES BENEFITS

	2015	2014
	SR	SR
Balance, beginning of the year	3,044,318	2,175,266
Provision for the year	1,217,605	994,384
Payments during the year	(446,073)	(125,332)
Balance, end of the year	3,815,850	3,044,318

18. GENERAL AND ADMINISTRATIVE EXPENSES

	2015	2014
	SR	SR
Employees' salaries and other benefits	28,217,295	25,516,647
Depreciation and amortization	2,114,447	1,324,873
Rent	2,649,524	2,437,239
Consultation fees	1,943,702	1,706,710
Maintenance	973,850	851,517
Telecommunication	612,555	656,499
Travel	772,148	794,198
Provision for lease losses (Note 7)	4,450,145	2,085,943
Recruitment related expenses	153,408	524,837
Printing and stationary	103,875	148,421
Withholding tax	43,823	84,905
Others	975,352	1,036,540
	43,010,124	37,168,329

19. SELLING AND MARKETING EXPENSES

	2015	2014
	SR	SR
Insurance expenses	12,445,327	10,930,902
Evaluation fees	1,140,800	2,821,600
Sales commission	1,952,917	4,017,621
Origination expenses	3,153,855	2,998,356
Others	228,772	155,235
Marketing expenses	1,847,435	1,058,114
	20,769,106	21,981,828

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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.
- **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.

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

	Gross maximum 2015 SR	Gross maximum 2014 SR
Bank balances (Note 3b)	8,200,836	2,827,136
Long term investments (Note 7)	3,663,449,750	3,554,180,594
Advances to property owners	4,492,000	39,144,200
Due from related parties	2,607,061	1,427,358
	<u>3,678,749,647</u>	<u>3,597,579,288</u>

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20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Liquidity risk

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

Management monitors the maturity profile 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:

	Less than 12 months SR	More than 12 months SR	2015 SR	Less than 12 months SR	More than 12 months SR	2014 SR
Cash and bank balances	8,200,836	-	8,200,836	2,827,136	-	2,827,136
Long term investments	186,926,921	3,476,522,829	3,663,449,750	184,215,312	3,369,965,282	3,554,180,594
Accrued finance leases income receivable	26,145,725	-	26,145,725	20,889,586	-	20,889,586
Prepaid expenses and other assets	21,562,229	-	21,562,229	10,200,513	-	10,200,513
Deferred origination fees	3,001,807	31,146,024	34,147,831	2,944,879	32,641,305	35,586,184
Properties available for sale	224,685	-	224,685	272,385	-	272,385
Advances to property owners	4,492,000	-	4,492,000	39,144,200	-	39,144,200
Due from related parties	2,607,061	-	2,607,061	1,427,358	-	1,427,358
Total assets	253,161,264	3,507,668,853	3,760,830,117	261,921,369	3,402,606,587	3,664,527,956
	Less than 12 months SR	More than 12 months SR	2015 SR	Less than 12 months SR	More than 12 months SR	2014 SR
Liabilities						
Tawaruq financing facilities	492,500,270	1,989,366,717	2,481,866,987	154,783,699	2,323,794,514	2,478,578,213
Accounts payable	2,690,546	-	2,690,546	2,071,326	-	2,071,326
Advance payments received from customers	13,970,160	-	13,970,160	11,965,743	-	11,965,743
Due to related parties	-	-	-	-	-	-
Accrued expenses and other liabilities	13,121,972	-	13,121,972	31,854,091	-	31,854,091
Provision for Zakat and income tax	7,847,553	-	7,847,553	9,599,222	-	9,599,222
Provision for end-of-service indemnities	-	3,815,850	3,815,850	-	3,044,318	3,044,318
Total liabilities	530,130,501	1,993,182,567	2,523,313,068	210,274,081	2,326,838,832	2,537,112,913
Net	(276,969,237)	1,514,486,286	1,237,517,049	51,647,288	1,075,767,755	1,127,415,043

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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:

	2015 SR	2014 SR
Share capital	800,000,000	800,000,000
Adjusted income for the year	127,022,001	115,296,280
Provisions	11,645,647	10,163,137
Tawaruq financing facility	2,481,866,987	2,478,578,213
Statutory reserve	64,538,656	42,048,235
Long term investments	(3,663,449,750)	(3,554,180,594)
Property and equipment, net	(19,287,655)	(17,275,518)
Retained earnings	271,850,007	188,992,849
Other additions to Zakat base	22,679	2,494,705
Other deductions from Zakat base	(37,819,226)	(74,730,384)
	36,389,346	(8,613,077)
Zakat base for Saudi shareholders at 79%	28,747,583	-
Zakat provision at 2.5% on the adjusted net income for the year	2,508,685	2,277,102

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

	2015 SR	2014 SR
<u>Income tax</u>		
Portion of adjusted net income for non-Saudi shareholders	26,674,620	24,212,219
Non-Saudi share of utilized provisions previously added back to the taxable income	(93,675)	(75,144)
	26,580,945	24,137,075
Income tax for the year	5,316,189	4,827,415

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

	2015 SR	2014 SR
Balance, beginning of the year	9,599,222	7,285,897
Provision for the year	7,824,874	7,104,517
Zakat Adjustment charged to RE	199,769	-
Income tax adjustment	(3,031,734)	(2,491,239)
Payment during the year	(6,744,578)	(2,299,953)
Balance, end of the year	7,847,553	9,599,222

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21. PROVISION FOR ZAKAT AND INCOME TAX (Continued)

The Company has filed its Zakat and income tax returns for the years from 2008 up to 2014. 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.

The appeal with PZTOC was rejected and subsequently in 2015, the Company has filed another appeal to the Higher Appeals Committee of DZIT. An unfunded bank guarantee amounting to SR 45,638,701 was also provided to DZIT 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. 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

22. BASIC AND DILUTED EARNINGS (LOSS) PER SHARE

Basic and diluted earnings per share for the years ended 31 December 2015 and 31 December 2014 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 2015 and 31 December 2014, respectively. The relevant average is 80,000,000 for the years ended December 31, 2015 and 2014.

23. FAIR VALUE

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable parties in an arm's length transactions. Management believes that the fair value of the company's financial assets and liabilities are not materially different from their carrying values.

24. COMMITMENT AND CONTINGENCIES

The Company has contingencies related to outstanding letter of guarantee issued by the Company in its normal course of business amounting to SR45,638,701 issued in favor of DZIT 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, certain figures for 2014 have been reclassified to conform with the presentation in the current year.

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26. ACCOUNTING STANDARD ISSUED BUT NOT YET EFFECTIVE

The Company has opted not to early adopt the amendments and revisions to the following standards, which have been published and are mandatory for compliance for the Group's accounting year beginning after January 1, 2016.

- IFRS 9 - Financial Instruments - Classification and Measurement of Financial Assets & Financial Liabilities. Effective for annual periods beginning on or after 1 January 2018.
- IFRS 15 Revenue from Contracts with Customers - New revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Effective for annual periods beginning on or after 1 January 2018.
- IFRS 10, IFRS 12 and IAS 28 Investment Entities – Amendments to IFRS 10 clarify that the exemption in paragraph 4 of IFRS 10 from presenting financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures its subsidiaries at fair value. Only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. Effective for annual periods beginning on or after 1 January 2016.
- IFRS 14 Regulatory Deferral Accounts. Effective for annual periods beginning on or after 1 January 2016.
- Amendments to IAS 27: Equity Method in Separate Financial Statements - The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Effective for annual periods beginning on or after 1 January 2016.
- Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests – Effective for annual periods beginning on or after 1 January 2016.
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization - Effective prospectively for annual periods beginning on or after 1 January 2016.
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture. Effective for annual periods beginning on or after 1 January 2016.
- Annual improvements to International Financial Reporting Standards - 2012-2014 cycle. Effective for annual periods beginning on or after 1 January 2016. These include:-
 - IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5.
 - IFRS 7 Financial Instruments: Disclosures - The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

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

- IAS 19 Employee Benefits The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.
- IAS 1 Disclosure Initiative - The amendments clarify:
 - the materiality requirements in IAS 1.
 - that specific line items in the statements of profit or loss and other comprehensive income 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 other comprehensive income 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 income.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statements of income and other comprehensive income.

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 March 22, 2016.