

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
FINANCIAL STATEMENTS
For the year ended 31 December 2017
Together with the
Independent Auditors' Report

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
For the year ended 31 December 2017

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Independent auditors' report

To the shareholders of Saudi Home Loans Company (a Saudi Closed Joint Stock Company)

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Saudi Home Loans Company, (the "Company"), which comprise the statement of financial position as at 31 December 2017, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS as modified by SAMA for the accounting of zakat and income tax, the applicable requirements of the Regulations for Companies and the Company's By-Laws and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. 'Reasonable assurance' is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit of Saudi Home Loans Company ("the Company").

Report on other legal and regulatory requirements

Based on the information that has been made available to us, nothing has come to our attention that causes us to believe that the Company is not in compliance, in all material respects, with the applicable requirements of the Regulations for Companies and the Company's By-laws in so far as they affect the preparation and presentation of the financial statements.

For KPMG Al Fozan & Partners
Certified Public Accountants



Abdullah Hamad Al Fozan
Licence No. 348

16 Jamada'II 1439H
Corresponding to: 4 March 2018



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

STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

(Amounts in Saudi Riyals)

	<u>Notes</u>	31 December 2017	31 December <u>2016</u>
<u>ASSETS</u>			
Cash and cash equivalents	4	25,086,478	34,729,558
Prepaid expenses and other assets, net	7	32,831,646	17,723,206
Advances to property owners	5	11,756,000	6,943,000
Due from related parties	6	1,031,358	1,166,342
Investment	8	892,850	--
Long term investments in finance lease – net	9	4,181,732,268	3,989,661,872
Deferred origination fees	10	32,437,315	33,798,344
Other real estate	11	1,079,685	1,079,685
Property and equipment, net	13	4,599,050	5,199,509
Intangible assets, net	12	4,629,601	5,257,067
Total assets		<u>4,296,076,251</u>	<u>4,095,558,583</u>
 <u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>			
Accounts payable		1,755,816	754,933
Accrued expenses and other liabilities	14	5,841,429	6,915,653
Advance lease rental	15	11,604,229	14,540,008
Provision for zakat and income tax	16	6,655,591	6,441,752
Tawarruq financing facilities	17	2,828,100,620	2,719,102,697
End of service benefits	18	5,894,693	4,949,249
Total liabilities		<u>2,859,852,378</u>	<u>2,752,704,292</u>
 SHAREHOLDERS' EQUITY			
Share capital	19	1,000,000,000	800,000,000
Other reserves	20	128,714,294	108,709,066
Retained earnings		307,509,579	434,145,225
Total shareholders' equity		<u>1,436,223,873</u>	<u>1,342,854,291</u>
Total liabilities and shareholders' equity		<u>4,296,076,251</u>	<u>4,095,558,583</u>

The accompanying notes from (1) to (33) are an integral part of these financial statements

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2017
(Amounts in Saudi Riyals)

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
Lease finance income		272,573,760	258,806,400
Service fees, net	21	11,566,637	13,025,411
Financing charges	17	(119,338,468)	(108,416,240)
Lease finance income, net		164,801,929	163,415,571
Application and evaluation fee income		4,407,292	3,880,350
Total operating income		169,209,221	167,295,921
Selling and marketing expenses	23	(24,121,888)	(23,773,254)
General and administrative expenses	22	(46,143,249)	(44,657,826)
Net operating income		98,944,084	98,864,841
Other income		1,082,054	1,394,245
Net income for the year		100,026,138	100,259,086
Other comprehensive income for the year		--	--
Total comprehensive income for the year		100,026,138	100,259,086

The accompanying notes from (1) to (33) are an integral part of these financial statements

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2017

(Amounts in Saudi Riyals)

	<u>Notes</u>	<u>For the year ended 31 December 2017</u>				<u>Total Shareholders' Equity</u>
		<u>Share capital</u>	<u>Statutory reserve</u>	<u>Other reserves</u> <u>General reserve</u>	<u>Retained earnings</u>	
Beginning of the year		800,000,000	58,101,786	50,607,280	434,145,225	1,342,854,291
Capitalisation of profit	19	200,000,000	--	--	(200,000,000)	--
Net income for the year		--	--	--	100,026,138	100,026,138
Transfer to Statutory reserve	20	--	20,005,228	--	(20,005,228)	--
Transfer to general reserve	20	--	10,002,614	(10,002,614)	--	--
Zakat and income tax		--	--	--	(6,656,556)	(6,656,556)
		<u>1,000,000,000</u>	<u>88,109,628</u>	<u>40,604,666</u>	<u>307,509,579</u>	<u>1,436,223,873</u>

	<u>Notes</u>	<u>For the year ended 31 December 2016</u>				<u>Total Shareholders' Equity</u>
		<u>Share capital</u>	<u>Statutory reserve</u>	<u>Other reserves</u> <u>General reserve</u>	<u>Retained earnings</u>	
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
Transfer to Statutory reserve	20	--	10,025,909	--	(10,025,909)	--
Transfer to general reserve	20	--	--	10,025,909	(10,025,909)	--
Zakat and income tax		--	--	--	(6,361,785)	(6,361,785)
		<u>800,000,000</u>	<u>58,101,786</u>	<u>50,607,280</u>	<u>434,145,225</u>	<u>1,342,854,291</u>

The accompanying notes from (1) to (33) are an integral part of these financial statements

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF CASH FLOWS
For the year ended 31 December 2017
(Amounts in Saudi Riyals)

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
OPERATING ACTIVITIES			
Net income for the year		100,026,138	100,259,086
Adjustments to reconcile net income to net cash used in operating activities:			
Depreciation of property and equipment	13	1,452,957	1,319,785
Amortisation of intangible assets	12	1,553,944	1,475,999
Amortisation of deferred origination fees		3,908,722	3,675,726
Gain on disposal of property and equipment		--	(64,998)
Provision for end of service benefits	18	1,185,764	1,320,951
Provision for lease losses	9	399,094	2,302,098
Reversal of provisions		--	(1,094,245)
<u>Net (increase) / decrease in operating assets:</u>			
Net change in finance lease investments	9	(193,362,340)	(303,223,495)
Net change in related party balances		134,984	1,440,719
Deferred origination fees	10	(2,547,693)	(3,326,239)
Prepaid expenses and other assets	7	(15,108,440)	2,537,662
Advances to property owners		(4,813,000)	(2,451,000)
<u>Net increase / (decrease) in operating liabilities:</u>			
Accrued expenses and other liabilities	14	(1,074,224)	(438,183)
Advance lease rental		(2,935,779)	569,848
Accounts payable		1,000,883	(1,935,613)
Net cash used in operating activities		<u>(110,178,990)</u>	<u>(197,631,899)</u>
INVESTING ACTIVITIES			
Purchase of property and equipment	13	(852,498)	(1,812,421)
Purchase of intangible assets	12	(926,478)	
Proceeds from sale of property and equipment		--	65,000
Net cash used in investing activities		<u>(1,778,976)</u>	<u>(1,747,421)</u>
FINANCING ACTIVITIES			
Addition in tawarruq financing facilities		523,484,116	562,665,746
Zakat and income tax	16	(6,442,717)	(7,767,586)
End of service benefits	18	(240,320)	(187,552)
Repayment in tawarruq financing facilities		<u>(414,486,193)</u>	<u>(328,802,566)</u>
Net cash generated from financing activities		102,314,886	225,908,042
Net increase in cash and cash equivalents		(9,643,080)	26,528,722
Cash and cash equivalents at beginning of the year		<u>34,729,558</u>	<u>8,200,836</u>
Cash and cash equivalents at end of the year		<u>25,086,478</u>	<u>34,729,558</u>
Lease finance income received during the year		265,027,610	262,215,352
<u>Supplemental non-cash transactions:</u>			
Issuing shares by transfer from retained earnings to share capita		200,000,000	--
Capital work in progress transferred to intangible assets and property and equipment	13	1,945,546	1,812,421

The accompanying notes from (1) to (33) are an integral part of these financial statements

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO FINANCIAL STATEMENTS
For the year ended 31 December 2017

1. CORPORATE INFORMATION

Saudi Home Loans Company ("the Company") is a Saudi closed joint stock Company registered in Riyadh, Kingdom of Saudi Arabia under commercial registration No. 1010241934 dated 22 Dhul Al Hijjah 1428H (corresponding to 1 January 2008). The Company operates under Saudi Arabian General Investment Authority (SAGIA) license No: 102030072425-01 dated 23 Rajab 1430H (corresponding to 16 July 2009), also the Company is regulated and licensed by Saudi Arabian Monetary Authority's (SAMA) license No: 14 / A SH /201403 dated 27 Rabi Al-Thani 1435H (corresponding to 27 Feb 2014). The address of the Company is as follows:

Saudi Home Loans Company
P.O.Box 27072
Riyadh 11417
Kingdom of Saudi Arabia

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 Makkah and Madinah.

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 modified by SAMA for the accounting of zakat and income tax', which requires, adoption of all IFRSs as issued by the International Accounting Standards Board ("IASB") except for the application of International Accounting Standard (IAS) 12 - "Income Taxes" and IFRIC 21 - "Levies" so far as these relate to zakat and income tax. As per SAMA Circular no. 381000074519 dated April 11, 2017 and subsequent amendments through certain clarifications relating to the accounting for zakat and income tax ("SAMA Circular"), the Zakat and Income tax are to be accrued on a quarterly basis through shareholders equity under retained earnings; and
- in compliance with the Regulations for Companies in the Kingdom of Saudi Arabia and By-laws of the Company

2.2 *Basis of measurement and presentation*

These financial statements have been prepared under the historical cost convention except for the measurement at fair value of available-for-sale investments.

The statement of financial position is stated broadly in order of liquidity.

2.3 *Functional and presentation currency*

These financial statements are presented in Saudi Arabian Riyals ("SR"), which is the Company's functional currency. Except as indicated, the financial information presented in SR has been rounded-off to the nearest Saudi Riyal.

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO FINANCIAL STATEMENTS
For the year ended 31 December 2017
(Amounts in Saudi Riyals)

2. BASIS OF PREPARATION (CONTINUED)

2.4 *Going concern*

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Additionally, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements have been prepared on a going concern basis.

2.5 *Critical accounting estimates and judgements*

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Such judgements, estimates, and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. Significant areas where management has used judgements, estimates and assumptions are as follows:

a) *Impairment of financial assets*

An assessment is made at each reporting date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired at the reporting date. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognized for changes in its carrying amounts.

In accordance with IAS 39, the Company considers evidence of impairment of long-term investments in finance lease at specific delinquency bucket level.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the lessee's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income in the provision for lease losses account.

Long-term investments in finance lease, whose terms have been renegotiated are no longer considered to be past due as soon as they resume servicing their scheduled payments as per the restructuring terms. Restructuring policies and practices are based on indicators or criteria which, indicate that payment will most likely continue. Such accounts continue to be subject to monthly delinquency monitoring and specific delinquency bucket based provisioning policy of the Company.

When a financial asset is uncollectible, it is written off against the related provision for impairment either directly by a charge to the statement of comprehensive income or through provision for lease losses account on the statement of financial position. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted, and the amount of the loss has been determined.

For equity investments held as available-for-sale, a significant or prolonged decline in fair value below its cost represents objective evidence of impairment. The impairment loss cannot be reversed through the statement of income as long as the asset continues to be recognised i.e. any increase in fair value after impairment has been recorded can only be recognised in equity. On de recognition, any cumulative gain or loss previously recognised in equity is included in statement of comprehensive income for the year.

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO FINANCIAL STATEMENTS
For the year ended 31 December 2017
(Amounts in Saudi Riyals)

2. BASIS OF PREPARATION (CONTINUED)

b) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Company. The fair value of an asset or a liability is measured using assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. The fair value of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

At each reporting date, management of the Company analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Company's accounting policies. For this analysis, the management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities based on the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO FINANCIAL STATEMENTS
For the year ended 31 December 2017
(Amounts in Saudi Riyals)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies adopted in the preparation of these financial statements.

a) *Changes in accounting policies*

The accounting policies used in the preparation of these financial statements are consistent with those used in the preparation of the financial statements for the year ended 31 December 2016 except for:

- i. the change in the accounting policy in relation to accounting for zakat and income tax as prescribed by SAMA effective 1 January 2017; and
- ii. the adoption of amendments to existing standard mentioned below, which had an insignificant effect / no financial impact on the consolidated financial statements of the Company on the current year or prior year, and is not expected to have any significant effect in future years.

Amendments to existing standards

- Amendments to IAS 7, Statement of cash flows on disclosure initiative: Applicable for annual periods beginning on or after 1 January 2017.

These amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. This amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.

- Amendments to IFRS 12, Disclosure of Interests in Other Entities: The amendments apply retrospectively and are effective for annual periods beginning on or after 1 January 2017.

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraph B10-B16, apply to an entity's interest in a subsidiary, an associate or a joint venture (or portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

b) *Cash and cash equivalents*

Cash and cash equivalents comprise of cash in hand and balances with local banks having sound credit rating.

c) *Investment*

Available-for-sale investments

Available-for-sale investments are those non-derivative equity and debt securities which are neither classified as held to maturity investments, loans and receivables nor designated as FVIS, that are intended to be held for an unspecified period of time, which may be sold in response to needs for liquidity or changes in special commission rates, exchange rates or equity prices.

Unrealised gains or losses on revaluation of these investments are credited or charged to the statement of changes in shareholders' equity through the statement of comprehensive income. Any significant or prolonged decline in the value of available for sale investments is charged to the statement of comprehensive income.

When the investment is sold the gain or loss accumulated in equity is reclassified to the statement of comprehensive income.

SAUDI HOME LOANS COMPANY
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(Amounts in Saudi Riyals)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) *Long Term investment in finance lease*

Long term investments in finance lease represents net investment in Ijarah leasing contracts which are receivable from customers on account of finance leases. Ijarah is an agreement whereby the Company, acting as a lessor, purchases an asset for lease according to the customer request (lessee), based on his promise to lease the asset for an agreed rent and specific period that could end by transferring the ownership of the leased asset to the lessee. 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 (IAS 17 – Leases). Long term investments 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 the Company's name, 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 Tawarruq Financing facilities (Refer to Note 17), 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 contract signed with customer represents an 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 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 recognised 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. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

e) *Impairment of long term investments in finance lease*

The Company reviews its lease receivables on a monthly basis to assess whether specific provision for impairment should be recorded in the statement of comprehensive income. In particular, considerable judgement 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 judgement and uncertainty, and actual results may differ resulting in future changes to such provisions. Provision for lease losses represents impairment charge relating to net investment in finance lease. Management estimates the provision using recovery rates determined based on the age of finance lease receivable, latest valuation of the collateral property and historical losses.

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
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For the year ended 31 December 2017
(Amounts in Saudi Riyals)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial assets and liabilities

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest method. The effective interest method amortisation is included in finance income in the statement of comprehensive income. The losses arising from impairment are recognised in the statement of comprehensive income.

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

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 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 and held-to-maturity investments.

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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Derecognition

Derecognition of financial assets:

A financial asset (or, where applicable, a part of a financial asset or part of a Company of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Derecognition of financial liabilities:

A financial liability (or a part of a financial liability) can only be derecognised when it is extinguished, that is when the obligation specified in the contract is either discharged, cancelled or expires.

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 comprehensive income.

Offsetting

Financial assets and liabilities are offset and reported net in the statement of financial position when the entity has a legal currently enforceable right to set off the recognised amounts and when the Company intends to settle on a net basis, or to realise the asset and settle the liability simultaneously. Income and expenses are not offset in the statement of comprehensive income unless required or permitted by an accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Company.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) *Revenue recognition*

Finance lease 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 relate to amounts receivable by the Company arising from the sale of a portion of long term investments in finance lease portfolio to ANB in 2014. These amounts are recoverable by the Company whilst the finance leases are outstanding and are recognised (at predefined rates per an Agreement) as the outstanding amounts are settled by the lessees (net of any related expenses) on a monthly basis.

h) *Application and evaluation fee income*

Application and evaluation fee income are charged when the customer submits his application for evaluation to qualify for lease financing. Evaluation fee is non-refundable while application is refundable subject to the success of the evaluation. Application and evaluation fee income are recognised as the transaction is completed or the service, is provided.

Related fees and commission expense are expensed as the transaction is completed or the service is received.

i) *Insurance claim*

For insurance claims the company performs and independent valuation of the fair value of property related to the deceased customer. As per Company policy, it takes a haircut of 30% on this fair value, called the Forced Sale Value (“FSV”) and assesses this FSV with the outstanding principal balance of the deceased customer. If the outstanding principal balance is higher than the FSV then the Company provides for the difference.

j) *End of service benefits*

The Company operates an End of service benefit plan for its employees based on prevailing Saudi Labour laws. The liability is being accrued based on projected unit. 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 in line with the requirements of IAS 19.

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

For details of assumptions and estimate please refer to note 18.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k) 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 capitalised. 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:

	<u>Rate</u>
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 statement of comprehensive income 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.

l) Other real estate

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

Subsequent to initial recognition, any subsequent write down to fair value, less costs to sell, are charged to the statement of comprehensive income. Any subsequent revaluation 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 in the statement of comprehensive income. Gains or losses on disposal are recognised in the statement of comprehensive income.

m) Intangible assets

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

Amortisation:

Intangible assets are amortised on a straight-line basis in the statement of comprehensive income over their estimated useful lives from the date that they are available for use.

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

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

n) Impairment of 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.

o) Deferred origination fees

Deferred origination fees comprises of the unamortised 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 interest rate method over the period of the respective lease contracts.

p) Advance lease rental

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

q) Accrued expenses and other liabilities

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

r) 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.

s) 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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

t) 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 and income tax are provided on an accrual basis. Zakat is computed on the Saudi shareholders’ share of equity or net income using the basis defined under the Zakat regulations. The Zakat charge is computed on the Zakat base. Income taxes are computed on the foreign shareholders share of net income for the year. Income tax is computed on adjusted net income. Any difference in the estimate is recorded when the financial assessment is approved, at which time the provision is cleared.

Zakat and income taxes are accrued on quarterly basis and are included under liabilities as provision for zakat and income tax. These are charged directly to retained earnings as required by SAMA Circular No. 381000074519 issued in April 2017.

u) Operating expenses

The Company follows accrual basis of accounting to record the operating expenses and recognised as expenses in the statement of comprehensive 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.

v) 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.

w) 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 comprehensive income.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand and current account balances with bank.

	<u>2017</u>	<u>2016</u>
Cash in hand	17,500	17,500
Bank current accounts	<u>25,068,978</u>	<u>34,712,058</u>
	<u>25,086,478</u>	<u>34,729,558</u>

5. ADVANCES TO PROPERTY OWNERS

This balance represents the amounts of certified cheques issued in the name of the seller of the properties, for the purchase of properties for the Company's Ijarah Contracts (approved deals); and for which the transfer of title deeds, in the name of the Company, is in process. These certified cheques are submitted by official Company representatives directly at the Registration office at the time of title deed transfer. Risk and reward of such Ijarah contracts are not transferred as at the date of statement of financial position.

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6. 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:

<u>Name</u>	<u>Relationship</u>
Arab National Bank	Shareholder
International Financial Corporation	Shareholder
Afwaf Investment Company	Affiliate
ANB Metlife	Affiliate

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

	<u>2017</u>	<u>2016</u>
Loan obtained from a shareholder ANB (Note 17)	2,359,290,774	2,425,480,595
Loan obtained from a shareholder IFC	187,500,000	--
Tawarruq financing charges ANB (Note 17)	106,562,270	97,065,687
Service Fees, net	11,566,637	13,025,411
Takaful protection coverage –ANB Metlife	13,479,906	4,308,721
Prepaid interest expense IFC	3,670,881	--
Deferred origination fees paid (Note 10)	2,547,693	3,326,239
Prepaid financing facility fees (IFC)	2,036,392	--
Rent charged by an affiliate	1,882,090	1,882,090
Tawarruq financing charges IFC	569,599	--

Due from related parties, is comprised of the following:

	<u>2017</u>	<u>2016</u>
Arab National Bank	1,031,358	1,166,342
Total	<u>1,031,358</u>	<u>1,166,342</u>

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.

	<u>2017</u>	<u>2016</u>
Salary	3,095,592	3,425,592
End of service benefits	202,763	285,466
Other allowances	916,909	1,744,249
Total	<u>4,215,264</u>	<u>5,455,307</u>

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7. PREPAID EXPENSES AND OTHER ASSETS, NET

Prepaid expenses and other assets comprised of the following:

	<u>2017</u>	<u>2016</u>
Insurance claims	22,353,080	13,420,404
Prepaid interest expense IFC	3,670,881	--
Advance tax	3,293,700	3,955,369
Prepaid financing facility fees (GIB)	2,212,500	1,537,500
Prepaid financing facility fees (IFC)	2,036,392	--
Legal claim	1,018,356	1,018,356
Prepaid software maintenance	676,078	195,725
Prepaid rent	561,985	561,985
Employees' advances and receivables	96,835	95,409
Others	39,170	39,185
	<u>35,958,977</u>	<u>20,823,933</u>
<u>Allowance for:</u>		
- Insurance claims	(2,108,975)	(2,082,371)
- Legal claim	(1,018,356)	(1,018,356)
	<u>32,831,646</u>	<u>17,723,206</u>

8. INVESTMENT

Article 18/1 of the financial leasing law issued by royal decree No. M/48 dated 13/08/1433, corresponding to 7 July 2012, states that "subject to the provision of the Company's law, a joint stock company or more shall be established with licence from SAMA, whose purpose is to register leasing contracts".

Pursuant to Article 18/1 of the financial leasing law, Saudi Company for Registering Finance Lease Contracts ("SCRFLC") was established on 3/2/1439 ,corresponding to 23 October 2017 , under CR No. 1010612415, and Saudi Arabian Monetary Authority's ("SAMA") approval No. 381000124076 dated 23/12/1438, corresponding to 14 September 2017.

This Company has been set up by SAMA as a means to further regulate the market and facilitate transfer of leases between suppliers of finance and counterparties. The main activity of SCRFLC is to register finance lease contracts across Saudi Arabia and do any future amendments to such contracts / transfer of such contracts, within the companies investing in SCRFLC. SCRFLC has 700,000 shares of SR 10 each. These 700,000 share have been divided between finance lease companies registered and operating in Saudi Arabia. On 17 December 2017, Saudi Home Loans Company purchased 89,285 shares at SR 10 each, amounting to SR 892,850.

As at the date of these financial statements, the carrying value of this investment is not materially different to its fair value.

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9. LONG TERM INVESTMENT IN FINANCE LEASE - NET

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

	<u>2017</u>	<u>2016</u>
Minimum lease payments:		
Performing leases	6,363,996,963	6,200,863,631
Non-performing leases	<u>192,153,639</u>	<u>110,270,184</u>
Long term investments in finance lease – gross	6,556,150,602	6,311,133,815
Unearned finance income	<u>(2,362,214,564)</u>	<u>(2,309,667,267)</u>
Long term investments in finance lease before impairment	4,193,936,038	4,001,466,548
Less: Impairment allowance	<u>(12,203,770)</u>	<u>(11,804,676)</u>
Long term investments in finance lease - net	4,181,732,268	3,989,661,872
Less: Current portion	<u>(243,341,195)</u>	<u>(221,161,731)</u>
Less: Accrued finance lease receivable	<u>(30,282,923)</u>	<u>(22,736,773)</u>
Non-current portion	<u>3,908,108,150</u>	<u>3,745,763,368</u>

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 Tawarruq Financing facilities (Refer to Note 17), 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 31 December 2017 are as follows:

	<u>2017</u>			<u>2016</u>
<u>Year</u>	<u>Minimum lease payments</u>	<u>Unearned finance income</u>	<u>Long term investments</u>	<u>Long term investments</u>
Within one year	549,465,770	263,637,880	285,827,889	255,703,179
Year two	511,052,276	245,449,755	265,602,523	243,960,044
Year three	497,211,469	226,962,155	270,249,315	252,105,278
Year four	482,803,936	208,486,874	274,317,063	255,276,233
Year five and later	4,485,334,227	1,417,677,900	3,097,939,248	2,994,421,814
	<u>6,525,867,678</u>	<u>2,362,214,564</u>	<u>4,193,936,038</u>	<u>4,001,466,548</u>

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

	<u>Performing leases, net</u>	<u>Non-performing leases, net</u>	<u>Provision for lease losses</u>	<u>Long term investments</u>
As at 31 December 2017	<u>4,082,462,705</u>	<u>111,473,333</u>	<u>(12,203,770)</u>	<u>4,181,732,268</u>
As at 31 December 2016	<u>3,940,142,427</u>	<u>61,324,121</u>	<u>(11,804,676)</u>	<u>3,989,661,872</u>

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9. LONG TERM INVESTMENT IN FINANCE LEASE - NET

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

	<u>2017</u>	<u>2016</u>
At the beginning of the year	11,804,676	9,552,087
Impairment charge for the year	<u>399,094</u>	<u>2,252,589</u>
At the end of the year	<u>12,203,770</u>	<u>11,804,676</u>

Collateral

The Company in the ordinary course of lending activities holds collateral as security to mitigate credit risk. These collaterals are primarily title deeds in the name of the Company, for properties that have been leased out to the portfolio of long term investments in finance lease.

As at 31 December 2017, the carrying amount of gross non-performing leases amounted to SR 111.47 million (2016: SR 61.33 million) and the value of identifiable real estate collateral held against them amount to SR 156.2 million (2016: SR 79.2 million). The Company has a policy to value every year, all real estate properties leased out, by involving approved valuers.

10. DEFERRED ORIGINATION FEES

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

	<u>2017</u>	<u>2016</u>
Deferred origination fees	32,437,315	33,798,344
Less: Current portion	<u>(3,188,203)</u>	<u>(3,155,782)</u>
Non-current portion	<u>29,249,112</u>	<u>30,642,562</u>

The movement in deferred origination fees is shown below:

	<u>2017</u>	<u>2016</u>
At beginning of the year	33,798,344	34,147,831
Origination Fees incurred for the year	2,547,693	3,326,239
Origination charge for the year	<u>(3,908,722)</u>	<u>(3,675,726)</u>
At end of the year	<u>32,437,315</u>	<u>33,798,344</u>

11. OTHER REAL ESTATE

The Company repossessed two real estate assets against settlement of over-due long term investments in finance lease as following:

	<u>2017</u>	<u>2016</u>
At beginning of the year	<u>1,079,685</u>	224,685
Real estate assets	<u>--</u>	<u>855,000</u>
At end of the year	<u>1,079,685</u>	<u>1,079,685</u>

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12. INTANGIBLE ASSETS

<u>Cost</u>	<u>2017</u>	<u>2016</u>
Balance at beginning of the year	7,424,411	6,761,560
Additions	<u>926,478</u>	<u>662,851</u>
Balance at end of the year	<u>8,350,889</u>	<u>7,424,411</u>
<u>Accumulated Amortisation</u>		
Balance at beginning of the year	(2,167,344)	(691,345)
Charge for the year	<u>(1,553,944)</u>	<u>(1,475,999)</u>
Balance at end of year	<u>(3,721,288)</u>	<u>(2,167,344)</u>
Net book value	<u>4,629,601</u>	<u>5,257,067</u>

Intangible assets comprise of computer software purchased by the Company for its business and ongoing improvements in computer software made as per business requirements.

13. PROPERTY AND EQUIPMENT, NET

	<u>Leasehold improvements</u>	<u>Vehicles</u>	<u>Furniture, fixtures and office equipment</u>	<u>Computers</u>	<u>Work-in- process</u>	<u>Total</u>
Cost						
Balance at beginning of the year	5,331,650	495,001	5,693,675	7,169,088	194,125	18,883,539
Additions	12,500	--	359,531	480,467	1,945,546	2,798,044
Disposals	--	--	(137,758)	--	--	(137,758)
Transfers	--	--	(148,041)	186,415	(1,983,920)	(1,945,546)
Balance at end of the year	<u>5,344,150</u>	<u>495,001</u>	<u>5,767,407</u>	<u>7,835,970</u>	<u>155,751</u>	<u>19,598,279</u>
Accumulated depreciation						
Balance at beginning of the year	2,758,056	149,749	4,498,839	6,277,386	--	13,684,030
Charge for the year	517,345	116,812	315,768	503,032	--	1,452,957
Disposals	--	--	(137,758)	--	--	(137,758)
Balance at end of the year	<u>3,275,401</u>	<u>266,561</u>	<u>4,676,849</u>	<u>6,780,418</u>	<u>--</u>	<u>14,999,229</u>
Net book value						
31 December 2017	<u>2,068,749</u>	<u>228,440</u>	<u>1,090,558</u>	<u>1,055,552</u>	<u>155,751</u>	<u>4,599,050</u>

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13. PROPERTY AND EQUIPMENT, NET

	<u>Leasehold improvements</u>	<u>Vehicles</u>	<u>Furniture, fixtures and office equipment</u>	<u>Computers</u>	<u>Work-in- process</u>	<u>Total</u>
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 end of the year	<u>5,331,650</u>	<u>495,001</u>	<u>5,693,675</u>	<u>7,169,088</u>	<u>194,125</u>	<u>18,883,539</u>
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 end of the year	<u>2,758,056</u>	<u>149,749</u>	<u>4,498,839</u>	<u>6,277,386</u>	<u>--</u>	<u>13,684,030</u>
Net book value						
31 December 2016	<u>2,573,594</u>	<u>345,252</u>	<u>1,194,836</u>	<u>891,702</u>	<u>194,125</u>	<u>5,199,509</u>

14. ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities comprise of the following:

	<u>2017</u>	<u>2016</u>
Employees related expenses	4,191,978	4,786,785
Provision for maintenance of finance lease contracts	444,800	306,391
Accrued brokerage fees	266,637	122,460
Accrued legal and consultation fees	595,000	375,000
Others	343,014	233,157
Accrued insurance	--	1,091,860
Total	<u>5,841,429</u>	<u>6,915,653</u>

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

15. ADVANCE LEASE RENTAL

Advance lease rental are advance payments received from customers during the normal course of business as following:

	<u>2017</u>	<u>2016</u>
Advance installment amount	8,545,097	10,548,357
Advance down payment	3,059,131	3,991,650
Total	<u>11,604,228</u>	<u>14,540,007</u>

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16. ZAKAT AND INCOME TAX

The significant components of the Zakat base of the Company for the year ended 31 December 2017 which are subject to certain adjustments under Zakat and Income Tax regulations are principally comprised of the following:

	<u>2017</u>	<u>2016</u>
Share capital	1,000,000,000	800,000,000
Adjusted net income for the year	103,735,227	103,830,330
Provisions	18,473,031	16,537,994
Tawarruq financing facility	1,580,963,488	2,654,818,896
Statutory & General reserves	108,709,066	88,657,248
Long term investments in finance	(4,181,732,268)	(3,989,661,872)
Property and equipment, net	(17,643,432)	(18,691,753)
Retained earnings	234,145,225	360,379,709
Other additions to Zakat base	--	--
Other deductions from Zakat base	(46,460,114)	(43,155,211)
	<u>(1,199,809,777)</u>	<u>(27,284,659)</u>
Zakat base for Saudi shareholders at 79%	<u>(947,849,724)</u>	<u>(21,554,881)</u>
Zakat provision at 2.5% on the adjusted net income for the year	<u>2,048,771</u>	<u>2,050,649</u>

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

	<u>2017</u>	<u>2016</u>
<u>Income tax</u>		
Portion of adjusted net income for non-Saudi shareholders	21,784,398	21,804,369
Finance Charges in excess of allowed amount	1,638,077	474,696
Non-Saudi share of utilized provisions previously added back to the taxable income	(383,548)	(323,551)
	<u>23,038,926</u>	<u>21,955,514</u>
Income tax for the year (20%)	<u>4,607,785</u>	<u>4,391,103</u>

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

	<u>2017</u>	<u>2016</u>
Balance, beginning of the year	6,441,752	7,847,553
Zakat provision for the year	2,048,771	2,050,649
Income Tax provision for the year	4,607,785	4,391,103
Prior Year Adjustment	--	(79,967)
Income tax adjustment	--	--
Payment during the year	(6,442,717)	(7,767,586)
Balance, end of the year	<u>6,655,591</u>	<u>6,441,752</u>

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16. ZAKAT AND INCOME TAX (CONTINUED)

The Company has filed its Zakat and income tax returns for the years from 2008 up to 2016. 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 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 favorable 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.

In November 2017, the Company received the final assessment in respect of the years 2012 to 2015 requesting an additional zakat liability of SR 78 million. The Company has initiated the appeal process.

17. TAWARRUO FINANCING FACILITIES

This item represents the Tawarruq financing facilities from Arab National Bank (shareholder) ("ANB"), International Finance Corporation (Shareholder) ("IFC") and Gulf International Bank ("GIB") 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 2,359,290,774 in favour of the bank. These facilities bear finance charges at 6months SIBOR plus annual profit margin of 2%. 20% of these facilities will be repaid in eight to ten equal semi-annual installments starting from 2012 whereas the remaining 80% will be due and paid at facility maturity date.

The Company has a Murabaha facility with Gulf International Bank dated June 2015, 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 334,523,915 of the finance amount. The facility bears a finance charge of 6 months SIBOR plus a profit margin of 1.95%.

In 2017, the Company signed two new facility agreements with ANB and GIB with same terms and conditions; in addition the Company started a new facility line with IFC for a period of 8 years including a grace period of 1 year, the facility amount of which is US\$ 50 million (SR 187.5 million) secured through the issuance of promissory notes and against contract receivables covering 120% of the loan amount. The facility will be repaid in 12 semi-annual equal installments. The following summary shows the new agreements executed in 2017. The facility bears a finance cost of 6 month libor plus a profit margin on 2.46%.

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17. TAWARRUQ FINANCING FACILITIES (CONTINUED)

	<u>2017</u>	<u>2016</u>
Current portion of facilities	298,296,606	245,081,492
Non-current portion of facilities	2,526,135,267	2,469,616,504
Total - excluding accrued financial charges	<u>2,824,431,873</u>	<u>2,714,697,996</u>
Accrued tawarruq financing charges	3,668,747	4,404,701
Total including financial charges	<u>2,828,100,620</u>	<u>2,719,102,697</u>

Loan from ANB is SR 2,359,290,774 (2016: 2,425,480,595), GIB is SR 281,309,846 (2016: 293,622,102) and from IFC is SR 187,500,000.

The finance charge related to these facilities, expensed during 2017 is as follows:

	<u>2017</u>	<u>2016</u>
ANB Tawarruq Facility	106,562,270	97,065,687
GIB Tawarruq Facility	12,206,599	11,350,553
IFC Tawarruq Facility	569,599	--
Total Finance Charge	<u>119,338,468</u>	<u>108,416,240</u>

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>
June 2021	ANB	500,000,000	130,370,815	10,866,843	119,503,972
March 2022	ANB	500,000,000	331,932,467	13,548,264	318,384,203
June 2022	ANB	650,000,000	465,372,219	18,994,784	446,377,434
December 2018	ANB	200,000,000	167,806,999	167,806,999	--
April 2019	ANB	500,000,000	424,642,396	25,000,000	399,642,396
April 2019	ANB	150,000,000	125,785,868	6,619,867	119,166,002
August 2020	ANB	206,696,969	191,194,697	10,334,848	180,859,848
January 2021	ANB	350,000,000	341,249,980	17,500,000	323,749,980
August 2022	ANB	400,000,000	180,935,333	358,902	180,576,432
May 2020	GIB	300,000,000	281,309,846	15,309,846	266,000,000
June 2024	IFC	187,500,000	187,500,000	15,625,000	171,875,000
		<u>3,944,196,969</u>	<u>2,828,100,620</u>	<u>301,965,353</u>	<u>2,526,135,267</u>

Tawarruq financing facilities are scheduled for repayment as follows:

<u>Year</u>	<u>2017</u>	<u>2016</u>
2017	--	249,486,193
2018	301,965,353	282,671,606
2019	813,879,570	602,053,138
2020	352,684,891	321,434,891
2021	614,313,314	656,324,377
2022	698,382,492	607,132,492
2023	31,250,000	--
2024	15,625,000	--
	<u>2,828,100,620</u>	<u>2,719,102,697</u>

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18. END OF SERVICE BENEFITS

The company operates an End of Service Benefit Plan for its employees based on the prevailing Saudi Labor Laws. The amounts recognized in the statement of financial position and movement in the obligation during the year are shown below:

	<u>2017</u>	<u>2016</u>
Balance, beginning of the year	4,949,249	3,815,850
Provision for the year	1,185,764	1,320,951
Payments during the year	(240,320)	(187,552)
Balance, end of the year	5,894,693	4,949,249

As at 31 December 2017, the above liability has been calculated using Saudi Labor law guidance and on the grounds of materiality, the defined benefit obligation was not valued using any actuarial assumptions.

Expected maturity

Expected maturity analysis of undiscounted define benefit obligation for the end of service plan is as follows:

As at	Less				Total
<u>31 December 2017</u>	<u>than a year</u>	<u>1-2 years</u>	<u>2-5 years</u>	<u>Over 5 years</u>	<u>5,894,693</u>
5,894,693	240,000	480,000	720,000	4,453,693	

19. SHARE CAPITAL

As at 31 December 2016, the total authorized share capital was SR 2 billion divided into 200 million shares of SR 10 each and the total paid up capital was SR 800 million.

During 2017 the Company increased the paid up share capital by issuing 20 million shares for SR 10 each, by transfer from its retained earnings to its existing shareholders in proportion to the existing number of shares (by capitalising profit). This increase in share capital was approved in the EGM meeting held on 24 May 2017. Later, on 20 November 2017, the EGM took the decision to cancel unpaid shares of the authorized share capital for 100 million shares / SR 10 each with a total value of SR 1 billion.

Accordingly, the total authorised and paid up share capital of the Company is SR 1 billion divided into 100 million shares as following:

	<u>No. of shares</u>	<u>Share capital</u>
Arab National Bank (“ANB”)	40,000,000	400,000,000
Dar Al Arkan Real Estate Development Company	15,000,000	150,000,000
Kingdom Installment Company (“KIC”)	9,000,000	90,000,000
Youssef bin Abdullah Al Shalash	8,000,000	80,000,000
Tareq Mohammad Al Jarallah	6,000,000	60,000,000
Hathlool Bin Saleh Al Hathlool	6,000,000	60,000,000
International Finance Corporation (“IFC”)	5,000,000	50,000,000
Abdulatif Bin Abdullah Al Shalash	5,000,000	50,000,000
Inma Almadaen Company	4,000,000	40,000,000
Daem Al Khaleej Company	2,000,000	20,000,000
Total	100,000,000	1,000,000,000

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20. OTHER RESERVES

In accordance with the Company's By-laws, minimum 10% of the annual net income is required to be transferred to a statutory reserve until this reserve equals 30% of the capital. This reserve is not available for dividend distribution.

On 27 Rabi II 1438H, corresponding to 25 January 2017, SAMA issued circular number 381000046342, whereby financing companies are required to maintain a minimum general provision at 1% of their outstanding long term investments in finance lease exposure after deducting the non-performing portfolio. The Company has considered this requirement and have instead set aside the required amount as a general reserve as at 31 December 2017 amounting to SR 40.60 million by way of transferring additional SR 10.01 million.

However, the Company expects to further assess this reserve going forward into 2018 with the implementation of IFRS 9 expected loss model (refer note 30).

21. SERVICE FEES, NET

In 2014 the Company entered 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.

As part of the Asset Sale Agreement Arab National Bank (ANB) has signed an Agreement with the Company in relation to the sold investments. Fees earned during the year ended 31 December 2017 is SR 13.10 million (SR 14.72 million during the year ended 31 December 2016) with related expenses amounting to SR 1.5 million (SR 1.7 million during the year ended 2016).

22. GENERAL AND ADMINISTRATIVE EXPENSES

	<u>2017</u>	<u>2016</u>
Employees' salaries and other benefits	29,814,647	30,476,061
Depreciation and amortisation	3,006,903	2,795,784
Rent	2,764,600	2,751,055
Consultation fees	2,785,635	1,719,995
Repairs and Maintenance	362,553	414,964
Telecommunication expenses	750,788	656,500
Travel expenses	468,878	850,824
Provision for lease losses (Note 9)	399,094	2,252,589
Provision for deceased loans	1,061,962	49,507
Recruitment related expenses	182,045	118,646
Printing and stationary	231,509	150,443
Withholding tax	44,870	39,462
Others	4,269,765	2,381,996
	<u>46,143,249</u>	<u>44,657,826</u>

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23. SELLING AND MARKETING EXPENSES

	<u>2017</u>	<u>2016</u>
Insurance expenses	13,228,308	12,501,780
Evaluation fees	1,927,750	1,981,850
Sales, collection & title transfer commission	2,801,839	3,000,062
Origination expenses	3,908,722	3,675,726
Marketing expenses	2,091,934	2,486,873
Others	163,335	126,963
	<u>24,121,888</u>	<u>23,773,254</u>

24. OPERATING LEASE – COMPANY AS A LESSEE

Payments under operating leases recognised as an expense during the year amounted to SR 2,764,600 (2016: SR 2,751,055). Operating lease payments represents the rental contract for the head office in Riyadh and the other two branches in Jeddah and Dammam.

Rent under non-cancellable contract	<u>2017</u>	<u>2016</u>
Less than 1 year	2,764,600	2,751,055
1 to 5 years	--	--
Over 5 years	--	--
	<u>2,764,600</u>	<u>2,751,055</u>

25. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments carried on the statement of financial position comprise bank balances, long term investments in finance lease receivables, available-for-sale investment, tawarruq financing and other receivables and payables.

Financial assets are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

The classification of financial assets depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. Risk management is carried out under policies approved by management. Management identifies, evaluates and hedges financial risks and has written principles for overall risk management covering specific areas, such as foreign exchange risk, profit rate risk, credit risk, and investment of excess liquidity.

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25. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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:

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company has established procedures to manage credit exposure including evaluation of lessees' credit worthiness, formal credit approvals, assigning credit limits, obtaining collateral such as title on leased assets and personal guarantees.

Concentrations of credit risk arises when a number of counter-parties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be affected similarly by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographical location.

The credit risks on gross amounts due in relation to the investment in finance leases is mitigated by the retention of title on leased assets, insurance and personal guarantees.

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

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

	<u>2017</u>	<u>2016</u>
Bank balances	25,086,478	34,729,558
Long term investments in finance lease (Note 9)	4,181,732,268	3,989,661,872
Advances to property owners	11,756,000	6,943,000
Due from related parties	1,031,358	1,166,342
Insurance claims	22,353,080	13,420,404
	<u>4,241,959,184</u>	<u>4,045,921,176</u>

Past due but not impaired – Long term investment in finance lease

	<u>2017</u>	<u>2016</u>
Past due up to 30 days	1,168,008,721	1,187,085,586
Past due 31 – 60 days	318,553,264	351,931,886
Past due 61 – 90 days	37,315,956	64,360,703
	<u>1,523,877,941</u>	<u>1,603,378,175</u>

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.

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25. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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 shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

	Less than 12 months	More than 12 months	2017	Less than 12 months	More than 12 months	2016
Assets						
Cash and bank balances	25,086,478	--	25,086,478	34,729,558	--	34,729,558
Long term investments in finance lease (gross)	285,827,889	3,908,108,149	4,193,936,038	255,703,179	3,745,763,369	4,001,466,548
Unearned Finance Income*	263,637,880	2,098,576,684	2,362,214,564	255,118,260	2,054,549,007	2,309,667,267
Prepaid expenses and other assets	32,831,646	--	32,831,646	17,723,206	--	17,723,206
Deferred origination fees	3,188,203	29,249,112	32,437,315	3,155,782	30,642,562	33,798,344
Advances to property owners	11,756,000	--	11,756,000	6,943,000	--	6,943,000
Due from related parties	1,031,358	--	1,031,358	1,166,342	--	1,166,342
Total assets	623,359,454	6,035,933,945	6,659,293,399	574,539,327	5,830,954,938	6,405,494,265
	Less than 12 months	More than 12 months	2017	Less than 12 months	More than 12 months	2016
Liabilities						
Tawarruq financing facilities	298,296,606	2,526,135,267	2,824,431,873	245,081,492	2,469,616,504	2,714,697,996
Financial charges**	113,798,052	217,528,764	331,326,816	101,199,677	322,274,012	423,473,689
Special commission payable on Tawarruq financing	3,668,747	--	3,668,747	4,404,701	--	4,404,701
Accounts payable	1,755,816	--	1,755,816	754,933	--	754,933
Advance payments received from customers	11,604,229	--	11,604,229	14,540,008	--	14,540,008
Accrued expenses and other liabilities	5,841,429	--	5,841,429	6,915,653	--	6,915,653
Provision for Zakat and income tax	6,176,005	--	6,176,005	6,441,752	--	6,441,752
Provision for end of service indemnities	--	5,894,693	5,894,693	--	4,949,249	4,949,249
Total liabilities	441,140,884	2,749,558,724	3,190,699,608	379,338,216	2,796,839,765	3,176,177,981
Net	182,218,570	3,286,375,221	3,468,593,791	195,201,111	3,034,115,173	3,229,316,284

* 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 Tawarruq financing facilities from the date of statement of financial position to the contractual maturity of Tawarruq financing facilities.

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25. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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.

	Increase/ decrease in <u>basis points</u>	Sensitivity of finance <u>charges</u>	<u>Sensitivity analysis</u>		<u>Total</u>
			12 months <u>or less</u>	More than <u>12 Months</u>	
Tawarruq Financing Facilities	+10	8,155,459	2,803,823	5,351,636	8,155,459
	-10	(8,155,459)	(2,803,823)	(5,351,636)	(8,155,459)

Currency risk:

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company is subject to fluctuations in foreign exchange rates in the normal course of its business. The Company did not undertake significant transactions in currencies other than Saudi Riyals and US Dollars.

26. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market are accessible by the Company. Financial instruments comprise of Ijarah receivables.

Fair value hierarchy

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

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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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.

26. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Tawarruq 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 2017 are as follows:

	Carrying Value	31 December 2017			Total
		Level 1	Level 2	Level 3	
Net investments in finance leases	4,181,732,268	--	--	4,177,120,139	4,177,120,139
Investment	892,850	--	--	892,850	892,850
Total		--	--	4,178,012,989	4,178,012,989
		31 December 2016			
	Carrying Value	Level 1	Level 2	Level 3	Total
Net investments in finance leases	3,989,661,872		--	3,974,358,031	3,974,358,031
Investment	--	--	--	--	--
Total		--	--	3,974,358,031	3,974,358,031

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

Furthermore, as at the date of these financial statements, the carrying value of investment is not materially different to its fair value.

27. CAPITAL MANAGEMENT

The Company manages and controls its capital structure and liquidity needs in order to safeguard the Company's ability to meet its future obligations and growing plans and continue as a going concern. The Company monitors the adequacy of its capital using below measures:

	31 December 2017	31 December 2016
Capital ratio	Total capital ratio % 23.83%	Total capital ratio % 20.34%

The capital ratio above is calculated by dividing the Company's total share capital with the weighted average total assets of the Company as at year-end. The Company has a capital base consisting of initial capital subscribed by the above-mentioned shareholders since 2008. During 2017, the company increased its share capital by SR 200 million, by way of capitalisation of profits.

The Company also raised Tawarruq 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.

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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 Company is therefore sufficiently capitalized in line with regulatory requirements.

28. 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 SR 45,638,701 (2016: SR 45,638,701) issued in favour 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.

29. PROSPECTIVE CHANGES IN THE INTERNATIONAL FINANCIAL REPORTING FRAMEWORK

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 2018 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, 2018:

IFRS 15 -- "Revenue from contracts with customers", applicable for the annual periods beginning on or after 1 January 2018. 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 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.

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.

30. IMPLEMENTATION AND IMPACT ANALYSIS OF IFRS 9

Implementation strategy:

In July 2014, the IASB issued IFRS 9 Financial Instruments, the standard that replaces IAS 39 Financial Instruments: Recognition and Measurement effective from 1 January 2018, with early adoption permitted. The Company considers implementing IFRS 9 as a significant project and therefore has set up a multidisciplinary implementation team with members from its Risk, Finance and IT. To achieve a successful and robust implementation, the project was being managed by the Chief Operating Officer and the acting Chief Financial Officer.

Classification and measurement:

Financial assets:

The classification and measurement of financial assets will depend on how these are managed in line with the business model and their contractual cash flow characteristics. These factors

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determine whether the financial assets are measured at amortised cost, fair value through other comprehensive income ('FVOCI') or fair value through profit or loss ('FVTPL').

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30. IMPLEMENTATION AND IMPACT ANALYSIS OF IFRS 9 (CONTINUED)

The main financial asset portfolio for the Company is Ijarah lease contract portfolio to provide home financing to customers. Under IFRS, such lease contracts are out of scope from IFRS 9 for classification and measurement purposes and are thus accounted for in accordance with IAS 17 Leases. For other financial assets held by the Company that are in scope for IFRS 9, the accounting is expected to be similar to IAS 39 and therefore the Company does not expect any material changes arising from adopting IFRS 9 from 1 January 2018.

Financial liabilities:

Under IFRS 9, the accounting for financial liabilities will largely remain similar to IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVTPL. The de-recognition rules have been transferred from IAS 39 and have not been changed. The Company therefore does not expect any material impact on its financial liabilities arising from adopting IFRS 9 from 1 January 2018.

Impairment:

Whilst the Ijarah lease contracts are not in scope for IFRS 9 classification and measurement purposes, they are however in scope for IFRS 9 impairment. The Company will recognize impairment allowances based on a forward looking Expected Credit Loss (ECL) approach on financial assets that are not measured via FVTPL. This mainly includes Long term Investment in Finance lease (Ijarah leases) that are measured at amortised cost. The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD)
- Loss given default (LGD)
- Exposure at default (EAD)

The above parameters are generally derived from statistical models developed with the assistance of external consultant, other historical data and are adjusted for forward looking information. The Company will categories its financial assets into following three stages in accordance with IFRS 9 methodology:

- **Stage 1:** Performing assets: Financial asset(s) that have not significantly deteriorated in credit quality since origination. The impairment allowance will be recorded based on 12 months ECL.
- **Stage 2:** Underperforming assets: Financial asset(s) that have significantly deteriorated in credit quality since origination. The impairment allowance will be recorded based on lifetime ECL.
- **Stage 3:** Impaired assets: For Financial asset(s) that are impaired, the Company will recognize the impairment allowance based on lifetime ECL.

The Company will also consider the forward-looking information in its assessment of significant deterioration in credit risk since origination as well as the measurement of ECLs.

The forward-looking information will include the elements such as macroeconomic factors (e.g., unemployment, GDP growth, inflation, profit rates and house prices) and economic forecasts obtained through internal and external sources.

The Company has completed the development of all the required models and utility to calculate Expected Credit Loss. In addition, the validation of the models and ECL utility has also been completed.

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30. IMPLEMENTATION AND IMPACT ANALYSIS OF IFRS 9 (CONTINUED)

Overall expected impact

The Company has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of IFRS 9 on 1 January 2018:

- According to transitional provisions for initial application of IFRS 9, the Company is allowed to recognise any difference between previous carrying amount under IAS 39 and the carrying amount at the beginning of the annual reporting period that includes the date of initial application in opening retained earnings. Accordingly, the overall impact on equity is approximated to be an incremental reduction of 0.50% on the date of initial application in opening retained earnings arising due to application of expected credit loss model as against incurred loss model.
- The new standard also introduces extended disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Company's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Governance and controls:

The Company establishment of a Governance framework (the "Framework") and related controls, consistent with the IFRS-9 Guidance Documents issued by SAMA. The Program is supported by a Steering Committee that includes representation from Finance and Risk, as well as the involvement of subject matter experts in the areas of methodology reviews, modeling, and formulating judgments with respect to the aspects of significant increase in credit risk determination, macroeconomic assumptions and forward looking factors. The Framework is currently being reviewed and approved by the Board of Directors.

Caveat:

The estimated decrease in shareholders' equity includes of only of increase to credit impairment provisions compared to those applied at 31 December 2017 under IAS 39. The assessment above is a point in time estimate and is not a forecast. The actual effect of the implementation of IFRS 9 on the Company could vary significantly from this estimate. The Company continues to refine models, methodologies and controls, and monitor developments in regulatory rulemaking in advance of IFRS 9 adoption on 1 January 2018.

31. COMPARATIVE FIGURES

Where applicable, accrued finance income on net investment in finance lease and accrued finance charges on Tawarruq financing facilities have been included in the carrying value of the net investment in finance lease and Tawarruq financing facilities respectively, to better reflect the amortized cost of the net investment in finance lease and Tawarruq financing facilities for 2017 and to conform with the presentation in current year.

Certain other prior year figures have been restated to conform with the current year's presentation requirements.

32. GENERAL

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

33. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Board of Directors on 1 March 2018 corresponding to 13 Jumada'II 1439H.