

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
Unaudited Interim Condensed Financial Statements
For the six months ended 30 June 2017
together with
Independent Auditors' Report on Limited Review

INDEX	PAGES
Independent Auditors' report on limited review	--
Interim condensed statement of financial position	1
Interim condensed statement of profit or loss and other comprehensive income	2
Interim condensed statement of cash flows	3
Interim condensed statement of changes in Shareholders' equity	4
Notes to the interim condensed financial statements	5 – 15



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INDEPENDENT AUDITORS' REPORT ON REVIEW OF INTERIM FINANCIAL STATEMENTS

To: **The Shareholders**
Saudi Home Loans Company
A Joint Stock Company
Riyadh, Kingdom of Saudi Arabia

Introduction

We have reviewed the accompanying interim condensed statement of financial position of **Saudi Home Loans Company – Closed Joint Stock Company** (the “Company”) as at 30 June 2017, the related interim condensed statement of profit or loss and other comprehensive income, interim condensed statement of cash flows and interim condensed statement of changes in shareholders’ equity for the six-months period then ended and notes to the interim condensed financial statements. Management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with IAS 34, ‘Interim Financial Reporting’ and Saudi Arabian Monetary Authority’s (‘SAMA’) guidance for the accounting of zakat and tax. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” as endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing as endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial statements as at 30 June 2017 are not prepared, in all material respects, in accordance with IAS 34, ‘Interim Financial Reporting’ and SAMA guidance for the accounting of zakat and tax.

For KPMG Al Fozan & Partners
Certified Public Accountants

Abdullah Hamad Al Fozan
Licence No. 348



Riyadh on: 3 Dhul Qi'dah 1438H
Corresponding to: 26 July 2017

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION
As at 30 June 2017
(Saudi Riyals)

	30 June 2017 <u>(Unaudited)</u>	31 December 2016 <u>(Audited)</u>
<u>ASSETS</u>		
Cash and cash equivalents (Note 3b)	79,774,475	34,729,558
Prepaid expenses and other assets, net (Note 8)	19,022,263	17,723,206
Advances to property owners (Note 9)	15,981,400	6,943,000
Due from related parties (Note 7)	1,097,594	1,166,342
Other real estate assets (Note 3e)	1,079,685	1,079,685
Intangible assets, net (Note 3g)	4,604,052	5,257,067
Long Term Investments in finance lease (Notes 3c and 4)	4,071,486,107	3,989,661,872
Deferred origination fees (Notes 3h and 5)	33,242,758	33,798,344
Property and equipment, net (Note 3f and 6)	4,833,168	5,199,509
Total assets	<u>4,231,121,502</u>	<u>4,095,558,583</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Accounts payable	711,258	754,933
Accrued expenses and other liabilities (Notes 3i and 14)	7,911,096	6,915,653
Advance lease rental	12,796,330	14,540,008
Provision for estimated Zakat and income tax (Notes 3l and 15)	3,006,376	6,441,752
Tawaruq financing facilities (Note 13)	2,812,568,818	2,719,102,697
End of service benefits (Note 3k)	5,578,793	4,949,249
Total liabilities	<u>2,842,572,671</u>	<u>2,752,704,292</u>
Shareholders' Equity:		
Share capital (Note 10)	1,000,000,000	800,000,000
Statutory reserve (Note 11)	62,971,974	58,101,786
General reserve (Note 12)	55,477,468	50,607,280
Retained earnings	270,099,389	434,145,225
Total shareholders' equity	<u>1,388,548,831</u>	<u>1,342,854,291</u>
Total liabilities and shareholders' equity	<u>4,231,121,502</u>	<u>4,095,558,583</u>

The accompanying notes from (1) to (20) are an integral part of these interim condensed financial statements

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
**INTERIM CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**
For the Six Month Period Ended 30 June 2017
(Saudi Riyals)

	For three months ended June 30		For six months ended June 30	
	2017 <u>(Unaudited)</u>	2016 <u>(Unaudited)</u>	2017 <u>(Unaudited)</u>	2016 <u>(Unaudited)</u>
Lease finance income (Note 3n)	68,067,669	63,341,261	133,177,317	126,091,473
Service fees, net (Note 3n)	2,953,955	3,299,240	6,000,474	6,682,900
Financing charges	<u>(29,353,416)</u>	<u>(25,615,039)</u>	<u>(60,080,913)</u>	<u>(47,957,706)</u>
Net lease finance income	41,668,208	41,025,462	79,096,878	84,816,667
Application and evaluation fee income (Note 3n)	1,116,922	1,260,350	1,897,771	2,232,695
Total operating income	42,785,130	42,285,812	80,994,649	87,049,362
Selling and marketing expenses (Note 3o)	<u>(5,637,789)</u>	<u>(6,168,742)</u>	<u>(11,770,161)</u>	<u>(11,905,608)</u>
General and administrative expenses (Note 3o)	<u>(10,688,039)</u>	<u>(10,199,794)</u>	<u>(20,873,936)</u>	<u>(21,118,518)</u>
Net operating income	26,459,302	25,917,276	48,350,552	54,025,236
Other income	351,329	751,551	351,329	1,051,551
Net income for the period	26,810,631	26,668,827	48,701,881	55,076,787
Other Comprehensive Income:				
Items that will not be reclassified subsequently to profit or loss	--	--	--	--
Items that may be reclassified subsequently to profit or loss	--	--	--	--
Total comprehensive income for the period	26,810,631	26,668,827	48,701,881	55,076,787
Basic and diluted earnings per share (Note 16)	<u>0.32</u>	<u>0.33</u>	<u>0.58</u>	<u>0.69</u>

The accompanying notes from (1) to (20) are an integral part of these interim condensed financial statements

SAUDI HOME LOANS COMPANY (SHL)
(A Saudi Closed Joint Stock Company)
INTERIM CONDENSED STATEMENT OF CASH FLOWS
For the Six Month Period Ended 30 June 2017
(Saudi Riyals)

	2017	2016
	<u>(Unaudited)</u>	<u>(Unaudited)</u>
Cash Flows from Operating Activities		
Net profit for the period	48,701,881	55,076,787
<i>Adjustments to reconcile net profit to net cash (used in) / generated from operating activities:</i>		
Depreciation	737,686	694,421
Amortization Origination fees	2,101,272	1,789,407
Amortization – Intangibles	754,243	726,462
Gain on sale of property and equipment	–	(14,999)
Provision for end of service benefits	636,412	578,802
Impairment in long term investments	(1,605,225)	847,095
Reversal of maintenance liability	–	(751,551)
Changes in assets and liabilities:		
Long term investments in finance lease	(80,219,010)	(164,114,762)
Net change in related party balances	68,748	1,372,920
Prepaid expenses and other assets	(1,299,057)	1,839,116
Advances to property owners	(9,038,400)	(4,705,500)
Accrued expenses and other liabilities	995,443	(630,183)
Advance lease rental	(1,743,678)	12,089,429
Accounts payable	(43,675)	(1,004,309)
	<u>(39,953,360)</u>	<u>(96,206,865)</u>
Deferred origination fees paid	(1,545,686)	(1,735,386)
End of service benefits paid	(6,868)	(80,820)
Zakat & income tax paid	(6,442,717)	(7,767,586)
Net cash used in operating activities	<u>(47,948,631)</u>	<u>(105,790,657)</u>
Cash Flows from Investing Activities		
Purchase of property and equipment; and intangible assets	(472,573)	(1,316,487)
Proceeds from sales of property and equipment	–	15,000
Net cash used in investing activities	<u>(472,573)</u>	<u>(1,301,487)</u>
Cash Flows from Financing Activities		
Additions in Tawaruq financing facilities	255,936,631	410,192,434
Repayment of Tawaruq financing facilities	(162,470,510)	(198,302,983)
Net cash generated from financing activities	<u>93,466,121</u>	<u>211,889,451</u>
Net increase in cash and cash equivalents	45,044,917	104,797,307
Cash and cash equivalents at the beginning of the period	<u>34,729,558</u>	<u>8,200,836</u>
Cash and cash equivalents at the end of the period	<u><u>79,774,475</u></u>	<u><u>112,998,143</u></u>
Non-Cash Transactions		
Capital work in progress transferred to intangible assets and property and equipment	450,515	1,319,291

The accompanying notes from (1) to (20) are an integral part of these interim condensed financial statements

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
INTERIM CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the Six Month Period Ended 30 June 2017
(Saudi Riyals)

	For the three month period ended June 30, 2016 (Unaudited)				Total
	Share capital	Statutory reserve	General reserve	Retained earnings	Shareholders' Equity
Beginning of the period	800,000,000	48,075,877	40,581,371	360,299,742	1,248,956,990
Net income for the period	--	--	--	55,076,787	55,076,787
Transfers to reserves	--	5,507,679	5,507,679	(11,015,358)	--
Zakat and income tax	--	--	--	(4,465,784)	(4,465,784)
	<u>800,000,000</u>	<u>53,583,556</u>	<u>46,089,050</u>	<u>399,895,387</u>	<u>1,299,567,993</u>

	For the three month period ended June 30, 2017 (Unaudited)				Total
	Share capital	Statutory reserve	General reserve	Retained earnings	Shareholders' Equity
Beginning of the period	800,000,000	58,101,786	50,607,280	434,145,225	1,342,854,291
Capital Increase	200,000,000	--	--	(200,000,000)	--
Net income for the period	--	--	--	48,701,881	48,701,881
Transfers to reserves	--	4,870,188	4,870,188	(9,740,376)	--
Zakat and income tax	--	--	--	(3,007,341)	(3,007,341)
	<u>1,000,000,000</u>	<u>62,971,974</u>	<u>55,477,468</u>	<u>270,099,389</u>	<u>1,388,548,831</u>

The accompanying notes from (1) to (20) are an integral part of these interim condensed financial statements

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS
For the Six Months Period Ended 30 June 2017
(Saudi Riyals)

1. ACTIVITIES

Saudi Home Loans Company (SHL) ("the Company") is a Saudi closed joint stock company registered in Riyadh, Kingdom of Saudi Arabia under commercial registration No. 1010241934 dated 22 Dhu 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 Agency (SAMA) license No: 14 / A SH /201403 dated 27 Rabi Al-Thani 1435H (corresponding to 27 Feb 2014).

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

2. BASIS OF PREPARING THE INTERIM FINANCIAL STATEMENTS

a) *Statement of compliance*

These interim condensed financial statements of the Company have been prepared in accordance with the International Accounting Standard 34: 'Interim Financial Reporting' as issued by the International Accounting Standards Board (IASB) and Saudi Arabian Monetary Authority's (SAMA's) guidance for the accounting of zakat and tax.

During 2017, SAMA issued a Circular no. 381000074519 dated 11 April 2017 and subsequent amendments through certain clarifications relating to the accounting for zakat and tax. The impact of these amendments is that the zakat and tax are to be accrued on a quarterly basis and recognized in interim condensed statement of changes in shareholders' equity with a corresponding liability recognized in the interim condensed statement of financial position.

The disclosures made in these interim condensed financial statements have, however, been limited based on the requirements of the International Accounting Standard 34: 'Interim Financial Reporting'. These interim condensed financial statements do not include all of the information required for a full set of financial statements.

In management's opinion, these interim condensed financial statements reflect all adjustments (which include normal recurring adjustments) necessary to present fairly the results of operations for the interim periods presented.

The statement of financial position shows assets and liabilities in order of their liquidity, which the directors consider to be more relevant to the Company's business than a current / non-current classification.

In preparing these interim condensed financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial statements as at and for the year ended December 31, 2016 except for the change as mentioned above.

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS
For the Six Months Period Ended 30 June 2017
(Saudi Riyals)

2. BASIS OF PREPARING THE INTERIM FINANCIAL STATEMENTS (CONTINUED)

b) *Basis of measurement*

The interim condensed financial statements are prepared under the historical cost convention.

c) *Functional and presentation currency*

These interim condensed financial statements are presented in Saudi Riyals, which is the functional and presentation currency of the Company. The figures in these interim condensed financial statements are rounded to the nearest Saudi riyal.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of these interim condensed financial statements are consistent with those used in the preparation of the annual financial statements as at and for the year ended 31 December 2016 except for the change as mentioned in the statement of compliance.

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

1. 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.

2. Amendments to IAS 12, 'Income taxes' on Recognition of deferred tax assets for Unrealised losses: Annual periods beginning on or after 1 January 2017

These amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value.

3. Amendments in following standards:

Amended Standard	Effective date
IFRS 12 Disclosure of Interests in Other Entities	1 January 2017
IFRS 1 First-time Adoption of International Financial Reporting Standards – removal of short term exemption for first time adopters	1 January 2018
IAS 28 Investments in Associates and Joint Ventures	1 January 2018

b) *Cash and cash equivalents*

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

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS
For the Six Months Period Ended 30 June 2017
(Saudi Riyals)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) *Long term investments in finance lease*

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

Gross long term investments 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.

d) *Impairment in long term investments*

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

e) *Other real estate assets*

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

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

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

f) *Property and equipment*

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

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

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS
For the Six Months Period Ended 30 June 2017
(Saudi Riyals)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) *Intangible assets*

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

Amortisation

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

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

h) *Deferred origination fees*

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

i) *Accrued expenses and other liabilities*

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

j) *Impairment*

At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately.

k) *End of service benefits*

Employees' end of service benefits, calculated in accordance with Saudi Arabian labour regulations, are accrued and charged to the statement of income. The liability is calculated at the undiscounted value of the vested benefits to which the employees are entitled, should their services be terminated at the balance sheet date.

l) *Zakat and income tax*

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

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS
For the Six Months Period Ended 30 June 2017
(Saudi Riyals)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m) Provisions

A provision is made when the Company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

n) Revenue recognition

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

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

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

o) Operating expenses

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

p) 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 interim statement of income.

4. LONG TERM INVESTMENTS IN FINANCE LEASE - NET

	30 June 2017	31 December
	<u>(Unaudited)</u>	<u>(Audited)</u>
Minimum lease payments		
Performing leases	6,245,177,755	6,200,863,631
Non-performing leases	155,609,753	110,270,184
Long term investments in finance lease - Gross	6,400,787,508	6,311,133,815
Less: Unearned finance income	<u>(2,319,182,871)</u>	<u>(2,309,667,267)</u>
Long term investments in finance lease before impairment - net	4,081,604,637	4,001,466,548
Less: Impairment allowance	<u>(10,118,530)</u>	<u>(11,804,676)</u>
Net Long term investments in finance lease	4,071,486,107	3,989,661,872
Less: Current portion	<u>(233,589,033)</u>	<u>(221,161,731)</u>
Less: Accrued finance lease receivable	<u>(24,181,840)</u>	<u>(22,736,773)</u>
Non-current portion	<u>3,813,715,234</u>	<u>3,745,763,368</u>

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS
For the Six Months Period Ended 30 June 2017
(Saudi Riyals)

4. LONG TERM INVESTMENTS IN FINANCE LEASE - NET(CONTINUED)

Long term investments represent net investment in finance lease. Total number of outstanding lease agreements as at 30 June 2017 is 6,089 (31 December 2016: 5,907)

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 facility agreement for Tawaruq Financing facilities (Refer to Note 13), 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 movement in the impairment allowance for long term investments is shown below:

	30 June 2017 <i>(Unaudited)</i>	31 December 2016 <i>(Audited)</i>
At the beginning of the period / year	11,804,676	9,552,087
Impairment charge for the period	(1,686,146)	2,252,589
At the end of the period / year	<u>10,118,530</u>	<u>11,804,676</u>

5. DEFERRED ORIGINATION FEES

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

6. PROPERTY AND EQUIPMENT

The following is a statement of cost of additions and disposals from property and equipment for the three months period ended 30 June 2017.

	30 June 2017		31 December 2016	
	Additions/ Transfers	Disposals	Additions/ Transfers	Disposals
	(Unaudited)	(Unaudited)	(Audited)	(Audited)
Leasehold improvements	--	--	151,072	--
Vehicles	--	--	300,000	382,700
Furniture, fixtures and office equipment	62,700	--	88,589	90,616
Computers	243,635	--	609,909	7,195
Intangible Assets	144,180	--	662,851	--
Work in progress	22,058	--	1,812,421	1,812,421
Total	<u>472,573</u>	<u>--</u>	<u>3,624,842</u>	<u>2,292,932</u>

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS
For the Six Months Period Ended 30 June 2017
(Saudi Riyals)

7. 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 (ANB)	Shareholder
Afwaf Investment Company	Affiliate

Balances related to related party comprised of the following:

	June 30 2017 (Unaudited)	31 December 2016 (Audited)
Due from related parties - ANB	<u>1,097,594</u>	<u>1,166,342</u>
Tawaruq financing facilities - ANB (Note 13)	<u>2,525,031,594</u>	<u>2,425,480,595</u>

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

	For the period ended June 30	
	2017 (Unaudited)	2016 (Unaudited)
Tawaruq financing charges	(53,847,709)	(43,065,384)
Service Fees, net (Note 7 (a))	6,000,474	6,682,900
Deferred origination fees paid (Note 5)	(1,545,686)	(1,735,382)
Rent charged by an affiliate	(941,046)	(789,300)

- (a) As part of the Asset Sale Agreement and the Board of Directors resolutions, Arab National Bank (ANB) has signed a Service Agreement with the Company and has appointed ANB to render administrative services in relation to the sold investments. Service fees earned during the period ended 2017 is 6.76 million (SR 7.55 million during the period ended 2016) with related expenses amounting to SR 0.76 million (SR 0.87 million during the period ended 2016), which is considered to be at market value for services provided.

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.

	For the period ended June 30	
	2017 (Unaudited)	2016 (Unaudited)
Total key management benefits	<u>2,504,414</u>	<u>2,880,469</u>
	<u>2,504,414</u>	<u>2,880,469</u>

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS
For the Six Months Period Ended 30 June 2017
(Saudi Riyals)

8. PREPAID EXPENSES AND OTHER ASSETS, NET

Prepaid expenses and other assets comprised of the following:

	30 June 2017 (Unaudited)	31 December 2016 (Audited)
Insurance claims recoverable	17,137,014	13,420,404
Prepaid financing facility fees (GIB)	1,312,500	1,537,500
Legal claim	1,018,356	1,018,356
Prepaid Insurance	992,060	--
Prepaid software maintenance	640,359	195,725
Prepaid rent	311,985	561,985
Employees' advances and receivables	130,995	95,409
Advance tax	--	3,955,369
Others	228,392	39,185
	<u>21,771,661</u>	<u>20,823,933</u>
Allowance for:		
- Insurance claim recoverable	(1,731,042)	(2,082,371)
- Legal claim	(1,018,356)	(1,018,356)
	<u>19,022,263</u>	<u>17,723,206</u>

9. ADVANCES TO PROPERTY OWNERS

This balance represents the amounts of certified cheques issued under the property owners' name, for the purchase of properties for SHL's Ijara Contracts (approved deals) and for which the transfer of title deeds, in the name of SHL, is in process.

10. SHARE CAPITAL

Share capital is divided into 100 million shares of SAR 10 each as of 30 June 2017 are as follows:

	<u>No. of shares</u>	<u>Share capital</u>
Arab National Bank	40,000,000	400,000,000
Dar Al Arkan Real Estate Development Company	15,000,000	150,000,000
Kingdom Installment Company	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
Hathloul Bin Saleh Al Hathloul	6,000,000	60,000,000
International Finance Corporation	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	<u>100,000,000</u>	<u>1,000,000,000</u>

11. STATUTORY RESERVE

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

12. GENERAL RESERVE

On 2 Rajab 1433H (corresponding to 19 June 2012), the shareholders agreed to establish a general reserve by the appropriation of 10% of the annual net income, until the reserve equals 30% of the share capital.

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS
For the Six Months Period Ended 30 June 2017
(Saudi Riyals)

13. TAWARUQ FINANCING FACILITIES

	30 June 2017 (Unaudited)	31 December 2016 (Audited)
Current portion of facilities	189,384,007	245,081,492
Non-current portion of facilities	<u>2,618,987,117</u>	<u>2,469,616,504</u>
Total excluding financial charges	<u>2,808,371,124</u>	<u>2,714,697,996</u>
Accrued Tawaruq financing charges	<u>4,197,694</u>	<u>4,404,701</u>
Total including financial charges	<u><u>2,812,568,818</u></u>	<u><u>2,719,102,697</u></u>

This item represents the Tawaruq financing facilities from Arab National Bank (a shareholder) and Gulf International Bank to finance the long term investments. Arab National Bank facilities are secured by promissory notes, transfer of certain property title deeds ownership and assignment of contracts and proceeds from long term investments in favor of the ANB.

These facilities bear finance charges at 6 month SIBOR plus annual profit margin ranging from 2% to 2.5%. Twenty percent of these facilities are being repaid in eight to ten equal semi-annual installments starting from 2015, whereas the remaining eighty percent will be due and paid at facility maturity date.

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

In March 2017, the company received a new revolving short term facility from Arab National Bank for SAR 40 million due in one year at 6 month SIBOR plus annual profit margin of 2%.

In June 2017, the company signed a new facility agreement for 400 million at 6 months SIBOR plus annual profit margin of 2% for five years; 20% of which will be repayable in 8 equal semi-annual payments and the remaining 80% will be repaid as a lump sum on the final maturity date.

Gulf International Bank (GIB) facility is a Murabaha facility for a period of 5 years; 20% of which will be repayable in 10 equal semi-annual payments and the remaining 80% will be repaid as a lump sum on the final maturity date. The facility is secured through the issuance of promissory notes and against contract receivables covering 120% of the finance amount. The facility bears a finance charge of SIBOR plus a profit margin of 1.95%

14. ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities comprised of the following:

	30 June 2017 (Unaudited)	31 December 2016 (Audited)
Employees' related expenses	4,787,677	4,786,785
Accrued Insurance	1,206,370	1,091,860
Accrued rent	941,046	--
Accrued legal and consultation fees	420,000	375,000
Provision for maintenance on finance lease contracts	453,762	306,391
Accrued brokerage fees	25,670	122,460
Others	76,571	233,157
Total	<u><u>7,911,096</u></u>	<u><u>6,915,653</u></u>

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS
For the Six Months Period Ended 30 June 2017
(Saudi Riyals)

15. PROVISION FOR ZAKAT AND INCOME TAX

The following is an analysis of movements in the provision for Zakat and income tax:

	30 June 2017 <u>(Unaudited)</u>	31 December 2016 <u>(Audited)</u>
Balance, beginning of the period / year	6,441,752	7,847,553
Provision for the period / year	3,007,341	6,441,752
Zakat adjustment charged to Retained Earnings	--	(79,967)
Income tax adjustment	--	--
Payment during the period / year	<u>(6,442,717)</u>	<u>(7,767,586)</u>
Balance, end of the period / year	<u>3,006,376</u>	<u>6,441,752</u>

The estimate for the period provided at interim stage is the best estimate of Management, therefore, actual figures may differ at year-end.

16. BASIC AND DILUTED EARNINGS / (LOSS) PER SHARE

Basic and diluted earnings per share for the three and six months period ended 30 June 2017 have been computed by dividing the net income for the relevant periods by the weighted average number of issued outstanding shares for the three and six months ended 30 June 2017 respectively. The relevant average is 83,333,333 shares for the three and six month periods then ended.

The company has increased its share capital by issue of 20 million shares of SR 10 each, by transfer from its retained earnings, to its existing shareholders in proportion of existing number of shares. This increase in share capital is approved by Ministry of Commerce and Industry (MoCI).

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments carried on the interim balance sheet principally include cash and its equivalents, accounts receivables and other assets, accounts payable, accruals and other liabilities.

- **Credit risk:** Is the risk that one party will fail to fulfil an obligation and will cause the other party to incur a financial loss. The company seeks to reduce its credit risk with respect to customers by regular monitoring of outstanding receivables.
- **Currency risk:** is the risk of changes in the value of financial instruments due to changes in exchange rates for foreign currencies; the transactions of the company are essentially in Saudi Riyals. Management believes that the currency risk is not substantial.
- **Liquidity risk:** is the risk that the company will encounter difficulties in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell financial assets quickly at an amount close to its fair value. The company manages its liquidity risk by ensuring that the necessary funds are available when needed.

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS
For the Six Months Period Ended 30 June 2017
(Saudi Riyals)

18. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

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

All financial assets (including lease receivables) and financial liabilities are measured at amortized cost. The carrying amounts of all financial assets and financial liabilities measured at amortized cost approximate their fair values except for net investments in finance lease. Tawaruq facilities bear floating rate of interest based on SIBOR and hence, there is no difference between the carrying value and the fair value. The fair value of net investment in finance leases as at 30 June 2017 as follows.

Financial Statement Caption	Fair value hierarchy	Amount SAR
Long Term Investments	Level 3	4,042,826,852

The fair value of long term investments is determined using discounted cash flow technique considering the market rates. The market rates are determined based on the risk profile of lease receivables and current interest rates.

19. COMMITTEMENT 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 favor of GAZT related to the Zakat and tax assessments raised for previous years.

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

20. EXECUTIVE COMMITTEE APPROVAL

These interim condensed financial statements were approved by the Board's Executive Committee on 18 July 2017 corresponding to 24 Shawwal 1438H.