

Saudi Finance Company
(A Saudi Closed Joint Stock Company)

FINANCIAL STATEMENTS

31 DECEMBER 2015

**AUDITORS' REPORT TO THE SHAREHOLDERS OF
SAUDI FINANCE COMPANY
(SAUDI CLOSED JOINT STOCK COMPANY)**

Scope of audit

We have audited the accompanying statement of financial position of Saudi Finance Company, a Saudi Closed Joint Stock Company (the "Company") as at 31 December 2015 and the related statements of comprehensive income, cash flows and changes in Shareholders' equity for the period from 28 October 2014 to 31 December 2015 (the "Period"). These financial statements are the responsibility of the Company's management and have been prepared by them in accordance with the provisions of Article 123 of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the financial statements.

Unqualified opinion

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

- i) present fairly, in all material respects, the financial position of the Company as at 31 December 2015 and the results of its operations and its cash flows for the Period in accordance with International Financial Reporting Standards.
- ii) comply with the requirements of the Regulations for Companies and the Company's Articles of Association in so far as they affect the preparation and presentation of the financial statements.

for Ernst & Young



Waleed G. Tawfiq
Certified Public Accountant
Registration No. 437



Riyadh: 15 Jumad Al-Thani 1437H
(24 March 2016)

Saudi Finance Company - Saudi Closed Joint Stock Company

STATEMENT OF COMPREHENSIVE INCOME

For the period from 28 October 2014 to 31 December 2015

	Notes	For the period from 28 October 2014 to 31 December 2015 SR
Special commission income from Murabaha contracts		68,901,263
Funding facility cost and charges (special commission expenses)		(5,843,570)
NET INCOME FROM MURABAHA		63,057,693
<i>Other operating income</i>		
Management fees	20	3,838,199
Other income		248,290
		4,086,489
<i>Operating expenses</i>		
General and administration expenses	6	(33,471,499)
Selling and marketing expenses	7	(8,846,277)
Impairment loss on Murabaha receivables	9	(8,793,355)
Gain on derivative	10	18,370
NET PROFIT BEFORE ZAKAT		16,051,421
Zakat	14	(4,988,179)
NET PROFIT FOR THE PERIOD		11,063,242
OTHER COMPREHENSIVE INCOME		-
TOTAL COMPREHENSIVE INCOME		11,063,242

Saudi Finance Company - Saudi Closed Joint Stock Company

STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

	<i>Notes</i>	<i>SR</i>
ASSETS		
Cash and cash equivalents	8	12,726,130
Restricted cash deposits	8.1	8,958,864
Murabaha receivables, net	9	371,392,073
Prepayments, accrued income and other receivables	10	6,158,531
Property and equipment	11	7,716,105
Intangible assets	12	2,794,626
TOTAL ASSETS		409,746,329
LIABILITIES AND SHAREHOLDERS' EQUITY		
Funding from financial institutions	13	264,508,424
Provision for zakat	14	12,825,846
Accounts payable, accruals and others	15	11,310,894
Employees' terminal benefits	16	2,033,707
TOTAL LIABILITIES		290,678,871
SHAREHOLDERS' EQUITY		
Share capital	17	100,000,000
Statutory reserve	18	1,639,144
Retained earnings		17,428,314
TOTAL SHAREHOLDERS' EQUITY		119,067,458
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		409,746,329

The attached notes 1 to 25 form part of these financial statements

Saudi Finance Company - Saudi Closed Joint Stock Company

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the period from 28 October 2014 to 31 December 2015

	<i>Share capital SR</i>	<i>Statutory reserve SR</i>	<i>Retained earnings SR</i>	<i>Total SR</i>
Balance at beginning of the period	100,000,000	532,820	7,471,396	108,004,216
Net profit for the period	-	-	11,063,242	11,063,242
Other comprehensive income	-	-	-	-
Total comprehensive income			11,063,242	11,063,242
Transfer to statutory reserve	-	1,106,324	(1,106,324)	-
Balance at 31 December 2015	100,000,000	1,639,144	17,428,314	119,067,458

Saudi Finance Company - Saudi Closed Joint Stock Company

STATEMENT OF CHASH FLOWS

For the period from 28 October 2014 to 31 December 2015

	Notes	<i>For the period from 28 October 2014 to 31 December 2015</i> SR
OPERATING ACTIVITIES		
Net profit before zakat		16,051,421
Non-cash adjustment to reconcile profit before zakat to net cash flows:		
Depreciation	11	2,203,733
Amortisation of intangible assets	12	1,007,960
Provision for employees' terminal benefits		847,700
Impairment loss on Murabaha receivables		8,793,355
Unrealised gain on derivative		(18,370)
		<hr/>
<i>Operating cash flows before working capital changes</i>		28,885,799
Working capital adjustments:		
Murabaha receivables		(127,319,382)
Prepayments, accrued income and other receivables		463,601
Accounts payable, accruals and others		(9,040,315)
		<hr/>
Net cash used in operation		(107,010,297)
Employees' terminal benefits paid	16	(1,052,495)
Zakat paid	14	(266,079)
		<hr/>
Net cash used in operating activities		(108,328,871)
INVESTING ACTIVITIES		
Purchase of property and equipment	11	(2,375,709)
Purchase of intangible assets	12	(207,834)
		<hr/>
Cash used in investing activities		(2,583,543)
FINANCING ACTIVITIES		
Restricted cash deposits		(2,500,000)
Funding from financial institutions		760,000,000
Repayment of funding from financial institutions		(646,874,918)
		<hr/>
Net cash from financing activities		110,625,082
		<hr/>
NET DECREASE IN CASH AND CASH EQUIVALENTS		(287,332)
Cash and cash equivalents at beginning of the period		13,013,462
		<hr/>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	8	12,726,130
		<hr/> <hr/>
<i>Supplementary information:</i>		
Special commission income from Murabaha contracts received		59,726,306
		<hr/> <hr/>
<i>Supplemental non-cash information:</i>		
Transfer from property and equipment to intangible assets	11	3,594,752
		<hr/> <hr/>

Saudi Finance Company - Saudi Closed Joint Stock Company

NOTES TO FINANCIAL STATEMENTS

31 December 2015

1 ACTIVITIES

Saudi Finance Company (the "Company") is a Saudi Closed Joint Stock Company registered in the Kingdom of Saudi Arabia under commercial registration numbered 1010078374 dated 23 Muharram 1411H (corresponding to 14 August 1990). The Company's head office is located in Riyadh. The Company has the following branches:

<i>Branch Commercial Registration Number</i>	<i>Date</i>	<i>Location</i>
1010137723	17 Rabi Thani 1416H	Khurais, Riyadh
1010366245	23 Rabi Thani 1434H	Olaya, Riyadh
1131013974	26 Dhul-Hijjah 1417H	Buraidah
2251056896	16 Jumad Awal 1435H	Al-Ahsa
4030242129	23 Rabi Thani 1434H	Jeddah
4650073124	11 Sha'aban 1435H	Madina
2051026306	24 Rabi Awal 1423H	Damam

The Company is engaged in leasing, commercial financing, small and medium business financing and retail financing in accordance with the Saudi Arabian Monetary Agency ("SAMA") approval number 3510000 71328 dated 3 Jumad Thani 1435H.

Pursuant to the Ministry of Commerce and Industry Resolution numbered 291 dated 4 Muharram 1436H (corresponding to 28 October 2014), the Company has been converted from a Limited Liability Company to a Saudi Closed Joint Stock Company and changed its name from "Saudi Installment House Company" to "Saudi Finance Company".

According to the by-laws of the Company, the first financial period of the Company commences from 28 October 2014 and ends on 31 December 2015. Following are the assets, liabilities and shareholders' equity of the Company as of the date of change in legal form:

	28 October 2014 SR
ASSETS	
Cash and cash equivalents	13,013,462
Restricted cash deposits	6,458,864
Murabaha receivables, net (restated for IFRS conversion adjustments, refer note 3)	252,866,046
Prepayments, accrued income and other receivables (restated for IFRS conversion adjustments, refer note 3)	6,603,762
Property and equipment	11,138,881
TOTAL ASSETS	290,081,015
LIABILITIES AND SHAREHOLDERS' EQUITY	
Funding from financial institutions	151,383,342
Provision for zakat	8,103,746
Accounts payable, accruals and others (restated for IFRS conversion adjustments, refer note 3)	20,351,209
Employees' terminal benefits	2,238,502
TOTAL LIABILITIES	182,076,799
SHAREHOLDERS' EQUITY	
Share capital	100,000,000
Statutory reserve	532,820
Retained earnings (restated for IFRS conversion adjustments, refer note 3)	7,471,396
TOTAL SHAREHOLDERS' EQUITY	108,004,216
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	290,081,015

Saudi Finance Company - Saudi Closed Joint Stock Company

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2015

2 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) as laid down under Article 71 of the Implementing Regulations of the Finance Companies Control Law which requires the Company to prepare the financial statements based on IFRS.

These financial statements have been presented in Saudi Riyals, which is the functional currency of the Company.

Assets and liabilities in the statement of financial position are presented in the order of liquidity and are rounded off to the nearest Saudi Riyal.

3 FIRST TIME ADOPTION OF IFRS

For all periods up to and including the period ended 27 October 2014, the Company prepared its financial statements in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia ("SOCPA"). These financial statements for the period from 28 October 2014 to 31 December 2015 have been prepared by the Company in accordance with International Financial Reporting standards ("IFRS").

In preparing these financial statements, no adjustments were required to the Company's statement of financial position as at 28 October 2014 and the Company's statement of comprehensive income for the period ended 27 October 2014 to account for GAAP differences since these did not have a material impact as at and on the relevant financial statements dates, except for certain reclassifications made in the Murabaha receivables for presenting them at amortised cost using effective profit rates.

Reconciliation of total assets and total liabilities as at 28 October 2014 (date of transition to IFRS)

	<i>As at 28 October 2014</i>			
	<i>As per SOCPA accounting standards</i>	<i>Effects of transition to IFRS</i>	<i>Correction of an error</i>	<i>As per IFRS</i>
<i>Statement of Financial Position</i>	SR	SR	SR	SR
Total assets	293,403,839	(2,091,546)	(1,231,278)	290,081,015
Total liabilities	184,168,345	(2,091,546)	-	182,076,799
Total Shareholders' equity	109,235,494	-	(1,231,278)	108,004,216

3.1 Under SOCPA accounting standards, the unamortised upfront Murabaha loan processing fees were classified under accounts payable, accruals and others as unearned processing fees and the unamortised transaction costs were classified under prepayments, accrued income and other receivables as deferred transaction costs. Under IFRS, these amounts are reclassified within Murabaha receivables for presenting them at amortised cost using effective profit rates.

3.2 The entire remuneration of direct sales agents was previously being considered as an incremental cost of generating Murabaha receivables and thus was being capitalized by the Company as part of the carrying value of Murabaha receivables. During the current period, management has analysed such remuneration and has concluded that an amount of SR 1,231,278 that has been capitalized as at the start of the current period should actually have been charged off as it did not represent incremental cost incurred directly relating to the initiation of Murabaha receivables. Management has adjusted this error retrospectively and has accordingly adjusted the balance of retained earnings at the beginning of the period. This resulted in a decrease in the retained earnings and Murabaha receivables by an amount of SR 1,231,278 at the beginning of the period and a decrease in the balance of Murabaha receivables by an amount of SR 2,843,544 as at 31 December 2015. This also resulted in an increase in the selling and distribution expenses and income from Murabaha receivables for the current period amounting to SR 2,898,982 and SR 1,286,716 respectively.

4 SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies applied by the Company:

Accounting convention

The financial statements are prepared under the historical cost convention, modified to include the measurement of derivative financial instruments at fair values.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates used by the Company's management in the preparation of Company's financial statements are disclosed in note 5.

Revenue recognition

Income from Murabaha financing is recognised using the effective profit rate method over the period of the contract based on the principal amounts outstanding. Tawaruq is a form of Murabaha transaction whereby the Company purchases a commodity and sells it to the customer. The customer sells the underlying commodity at spot and uses the proceeds for financing requirements.

Fees and commissions relating to Murabaha financing are recognised as income using the effective rate of profit.

Expenses

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

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment in value. The cost less estimated residual value of property and equipment is depreciated on a straight line basis over the estimated useful lives of the assets.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Leasehold improvements are amortised on a straight-line basis over the shorter of their useful life or the term of the lease. Expenditure for repair and maintenance are charged to statement of comprehensive income. Improvements that increase the value or materially extend the life of the related assets are capitalised.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

Operating leases

Operating lease payments are recognised as expenses in the statement of comprehensive income on a straight-line method basis over the lease contract period.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value

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.

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

Accounts payable and accruals

Accounts payable and accruals are initially measured at fair value and subsequently remeasured at amortised cost. Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Provisions

Provisions are recognised when the Company has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and can be measured reliably.

Non-derivative financial assets

Financial assets held by the Company are mainly non-derivatives with fixed or determinable payments that are not quoted in an active market. These are initially recognised at fair value. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective profit 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 profit rate ("EPR"). The EPR amortisation is included in special commission income from Murabaha contracts in the statement of comprehensive income. The losses arising from impairment are recognised in the statement of comprehensive income.

Murabaha receivables

Murabaha is an agreement whereby the Company sells to a customer an asset, which the Company has purchased and acquired based on a promise received from the customer to buy. The selling price comprises the cost plus an agreed profit margin. Gross amounts due under the Murabaha sale contracts include the total of future sale payments on the Murabaha agreement (Murabaha sale contract receivable). The difference between the Murabaha sale contracts receivable and the cost of the sold asset, is recorded as unearned Murabaha profit and for presentation purposes, is deducted from the gross amounts due under the Murabaha sale contracts receivable.

Ijara receivables

Ijara finance is an agreement wherein gross amounts due under originated Ijara (finance) leases includes the total of future lease payments on Ijara finance leases (lease contracts receivable), plus estimated residual amounts receivable. The difference between the lease contracts receivable and the cost of the leased assets is recorded as unearned Ijara finance lease income and for presentation purposes, is deducted from the gross amounts due under Ijara finance leases.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-derivative financial assets (continued)

Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default or delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Provision for credit losses is based on management assessment as to whether there is objective evidence that a financial asset may be impaired. If such evidence exists, the estimated recoverable amount is determined and any impairment loss is recognised in the statement of comprehensive income.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group 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.

Non-derivative financial liabilities

Initial recognition and measurement

All non-derivative financial liabilities are recognised initially at fair value plus, in the case of financing and borrowings, directly attributable transaction costs. The Company's financial liabilities include trade and other payables and funding from financial institutions.

Subsequent measurement

After initial recognition, profit bearing borrowings are subsequently measured at amortised cost using the effective profit method. Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised as well as through the EPR amortisation process. 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 EPR. The EPR amortisation is included in special commission expenses in the statement of comprehensive income.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-derivative financial liabilities (continued)

Derecognition of financial liability

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of comprehensive income.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents consists of bank balances, cash on hand, and short-term bank deposits that have an original maturity of three months or less.

Funding from financial institutions

Special commission bearing funding from financial institutions are measured at amortised cost using the effective profit rate ("EPR") method. Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised as well as through the EPR amortisation process.

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 EPR. The EPR amortisation is included in special commission expense in the statement of comprehensive income.

Employees' terminal benefits

The Company operates a defined benefit plan for employees in accordance with Saudi Labor Law as defined by the conditions stated in the laws of the Kingdom of Saudi Arabia. The cost of providing the benefits under the defined benefit plan is determined using the projected unit credit method.

Remeasurements for actuarial gains and losses are recognised immediately in the statement of financial position with a corresponding credit to retained earnings through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to comprehensive income in subsequent periods.

Past service cost are recognised in the statement of comprehensive income on the earlier of:

- The date of the plan amendment or curtailment, and
- The date the Company recognises related restructuring costs

Net special commission income is calculated by applying the discount rate to the net defined benefit liability. The Company recognises the following changes in the net defined benefit obligation in the statement of comprehensive income:

- Service costs comprising current service costs, past service costs, gains and losses on curtailments and non-routine settlements (under general and administrative expenses)
- Net special commission expense or income (under borrowing facility cost and charges)

Zakat

Zakat is provided for in accordance with Saudi Arabian fiscal regulation. The provision is charged to statement of comprehensive income.

Foreign currencies

Transactions in foreign currencies are recorded in Saudi Riyals at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. All differences are charged to the statement of comprehensive income.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured for any changes in its fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from the changes in the fair value of derivatives are taken directly to the statement of comprehensive income.

5 SIGNIFICANT ACCOUNTING ESTIMATES

Significant areas where management has used estimates, assumptions or exercised judgments are as follows:

Impairment losses on Murabaha receivables

The Company reviews its non-performing Murabaha receivables at each reporting date to assess whether a specific provision for credit losses should be recorded in the statement of comprehensive income. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the specific provision.

The Company reviews its Murabaha financing portfolio to assess an additional collective impairment provision on each reporting date. In determining whether an impairment loss should be recorded, the Company makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of Murabaha financing. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its cash flows. The methodology and assumptions used for estimating both the amount and the timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. The going concern assessment of the Company is based on a number of factors including availability of funding lines from various financial institutions including related parties and the growth of its Murabaha portfolio. Therefore, the financial statements of the Company have been prepared on going concern basis.

Useful lives of property and equipment

The Company's management determines the estimated useful lives of its property and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

Saudi Finance Company - Saudi Closed Joint Stock Company

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2015

6 GENERAL AND ADMINISTRATION EXPENSES

	<i>For the period from 28 October 2014 to 31 December 2015</i>
	SR
Salaries and employee related costs	20,010,092
Rent	3,811,709
Depreciation (note 11)	2,203,733
Professional fee	2,022,997
Utilities	1,298,785
Amortisation of intangible assets (note 12)	1,007,960
Software license fee	705,000
Government relations	681,378
Travel	603,997
Maintenance	348,709
Others	777,139
	<u>33,471,499</u>

7 SELLING AND MARKETING EXPENSES

	<i>For the period from 28 October 2014 to 31 December 2015</i>
	SR
Salaries and employee related costs	6,796,761
Commission	1,189,251
Advertising and promotion	860,265
	<u>8,846,277</u>

8 CASH AND CASH EQUIVALENTS

	SR
Cash at bank	12,715,524
Cash in hand	10,606
	<u>12,726,130</u>

- 8.1 In addition to above, restricted cash deposits of SR 8,958,864 are kept as call margins for certain funding facilities granted to the Company by counterparty lenders.

Saudi Finance Company - Saudi Closed Joint Stock Company

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2015

9 MURABAHA RECEIVABLES, NET

	SR
Gross Murabaha receivables	520,908,747
Less: deferred profit	(129,953,211)
	<u>390,955,536</u>
Less: impairment provision against Murabaha receivables	(19,563,463)
Murabaha receivables, net	<u><u>371,392,073</u></u>

Gross Murabaha receivables include receivable from related parties amounting to SR 2,037,081 and related deferred profit amounts to SR 99,953. Murabaha receivables above also include Ijara receivables aggregating to SR 1,492,580.

As at 31 December 2015, Murabaha receivables with nominal value of SR 19,563,463 were impaired. The unimpaired Murabaha receivables include SR 198,805,867 which are past due, but not impaired. Unimpaired receivables are expected, on the basis of past experience, to be fully recoverable.

The minimum future payments of gross Murabaha receivables as of the reporting date are summarised below:

	SR
Gross Murabaha sale receivables due in:	
Less than one year	194,394,167
One to five years	326,513,276
Over five years	1,304
	<u>520,908,747</u>
Less: deferred profit	
Less than one year	(40,562,794)
One to five years	(89,390,033)
Over five years	(384)
	<u>(129,953,211)</u>
	<u><u>390,955,536</u></u>

The movement in impairment provision against Murabaha receivables during the period was as follows:

	<i>For the period from 28 October 2014 to 31 December 2015</i>
	SR
Balance at beginning of the period	10,770,108
Impairment charge for the period	8,793,355
	<u>19,563,463</u>

Saudi Finance Company - Saudi Closed Joint Stock Company

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2015

10 PREPAYMENTS, ACCRUED INCOME AND OTHER RECEIVABLES

	SR
Prepaid expenses	3,997,999
Due from a related party (note 20)	693,159
Commission receivable	272,862
Special commission income receivable	249,595
Unrealised gain on derivatives (see note 10.1)	18,370
Other receivables	926,546
	<u>6,158,531</u>

10.1 This represents mark to market gain on commission rate swaps with a notional principal amounting SR 22,627,498 as of 31 December 2015.

Derivatives often involve at their inception only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the rate underlying a derivative contract may have a significant impact on the income of the Company.

Saudi Finance Company - Saudi Closed Joint Stock Company

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2015

11 PROPERTY AND EQUIPMENT

The estimated useful lives of the assets for the calculation of depreciation are as follows:

Leasehold improvements	7 years
Office equipment	4 years
Furniture and fixtures	7 years
Motor vehicles	4 years
Computer software	4 years

	Leasehold Improvements SR	Office equipment SR	Furniture and fixtures SR	Motor vehicles SR	Computer software SR	Capital work in progress SR	Total 2015 SR
Cost:							
At beginning of the period	4,855,525	3,433,872	2,221,707	645,527	3,468,387	149,985	14,775,003
Additions	720,937	143,507	347,941	113,000	-	1,050,324	2,375,709
Transfers	(64,169)	267,992	49,934	66,000	719,748	(1,039,505)	-
Transfers to intangible assets*	-	-	-	-	(4,188,135)	-	(4,188,135)
At end of the period	5,512,293	3,845,371	2,619,582	824,527	-	160,804	12,962,577
Accumulated depreciation:							
At beginning of the period	571,590	1,115,768	924,429	430,952	593,383	-	3,636,122
Depreciation charge for the period	808,393	1,022,045	265,543	107,752	-	-	2,203,733
Relating to transfers to intangible assets*	-	-	-	-	(593,383)	-	(593,383)
At end of the period	1,379,983	2,137,813	1,189,972	538,704	-	-	5,246,472
Net book amounts:							
At 31 December 2015	4,132,310	1,707,558	1,429,610	285,823	-	160,804	7,716,105

* During the current period, the Company transferred balances of cost and accumulated amortisation of softwares from property and equipment to intangible assets.

Saudi Finance Company - Saudi Closed Joint Stock Company

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2015

12 INTANGIBLE ASSETS

Intangible assets comprises of computer softwares. The cost of intangible asset is amortised on a straight-line basis over the estimated useful lives of 4 years.

	<i>For the period from 28 October 2014 to 31 December 2015 SR</i>
<i>Cost</i>	
At beginning of the period	-
Transfers from property and equipment	4,188,135
Additions	207,834
	<hr/>
At 31 December	4,395,969
	<hr/>
<i>Accumulated amortisation:</i>	
At beginning of the period	-
Relating to transfers from property and equipment	593,383
Amortisation charge for the period	1,007,960
	<hr/>
At 31 December	1,601,343
	<hr/>
<i>Net book amounts</i>	
At 31 December	2,794,626
	<hr/> <hr/>

13 FUNDING FROM FINANCIAL INSTITUTIONS

This includes facilities obtained from local financial institutions in the form of medium term Islamic financing (Tawarruq). These facilities are secured by assignment of receivables arising from financing contracts and a comfort letter issued by the shareholders and carry commission at commercial rates. These facilities are repayable on a monthly/quarterly basis.

The facility agreements include covenants which, among other things, require the Company to maintain certain financial ratios. As of 31 December 2015, the Company was not in compliance with certain covenants. Management believes that the lender will not exercise its right to demand accelerated / immediate payment of the outstanding balance from the Company.

Funding from financial institutions also include various short term facilities of three months obtained from Abu Dhabi Islamic Bank PJSC, UAE, a related party, carrying commission at commercial rates (note 20).

Saudi Finance Company - Saudi Closed Joint Stock Company

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2015

14 ZAKAT

Charge for the period

The zakat charge amounting to SR 4,988,179 consists of charge for the current period.

The charge for the current period is based on the following:

	2015 SR
Equity	109,787,431
Opening allowances and other adjustments	50,863,164
Book value of long term assets	<u>(11,181,294)</u>
	149,469,301
Zakatable income for the period	<u>24,764,299</u>
Zakat base	<u>174,233,600</u>
Zakat from 1 January to 31 December 2015	4,355,840
Zakat from 28 October 2014 to 31 December 2014	632,339
	<u>4,988,179</u>

The differences between the financial and the zakatable results are mainly due to provisions which are not allowed in the calculation of zakatable income.

Movements in provision during the period

The movement in the zakat provision for the period was as follows:

	<i>For the period from 28 October 2014 to 31 December 2015</i> SR
At beginning of the period	8,103,746
Provided during the period	4,988,179
Paid during the period	<u>(266,079)</u>
At end of the period	<u>12,825,846</u>

Status of assessments

Subsequent to the Period end, zakat assessments have been raised by the Department of Zakat and Income Tax for the years 2005 to 2007 assessing an additional zakat of SR 2,621,509 and no provision has been recorded in these financial statements as the Company is confident of a favorable outcome. The Company is in the process of submitting the appeal against the additional zakat assessed by the DZIT. The Company has filed the zakat returns with DZIT for the years up to 2014 and are still under review by the DZIT.

15 ACCOUNTS PAYABLE, ACCRUALS AND OTHERS

	SR
Trade payables	7,976,459
Accrued expenses	2,356,405
Amount due to a shareholder (note 20)	472,444
Others	505,586
	<u>11,310,894</u>

Saudi Finance Company - Saudi Closed Joint Stock Company

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2015

16 EMPLOYEES' TERMINAL BENEFITS

The following tables summarise the components of end of service benefits recognised in the statement of comprehensive income and statement of financial position:

	<i>For the period from 28 October 2014 to 31 December 2015</i>
	SR
At beginning of the period	2,238,502
Charge for the period	847,700
Payments made during the period	<u>(1,052,495)</u>
At end of the period	<u><u>2,033,707</u></u>

17 SHARE CAPITAL

The Company's authorised, issued and paid up share capital is SR 100 million divided into 10 million shares with a nominal value of SR 10 each.

Paid in share capital as at 31 December 2015 is as follows:

<i>Shareholders</i>	<i>Number of Shares</i>	<i>Capital SR</i>
ADIB Two Financial Invest LLC, U.A.E	5,100,000	51,000,000
Abdullah Ibrahim Al Khorayef Sons Company, K.S.A	4,600,000	46,000,000
Mohamed Abdullah Al Khorayef	100,000	1,000,000
Saad Abdullah Al Khorayef	100,000	1,000,000
Hamad Abdullah Al Khorayef	100,000	1,000,000
	<u>10,000,000</u>	<u><u>100,000,000</u></u>

18 STATUTORY RESERVE

In accordance with the Company's articles of association and the Regulation for Companies in Saudi Arabia, 10% of the annual net income after zakat and income tax, after absorption of accumulated losses, is transferred to a statutory reserve until such reserve equals 50% of its share capital. This reserve is not available for distribution to the shareholders.

19 EARNINGS PER SHARE

The basic and diluted earnings per share are calculated as follows:

	<i>For the period from 28 October 2014 to 31 December 2015</i>
	SR
Net profit for the period	<u>11,063,242</u>
Weighted average number of ordinary shares outstanding during the period	<u>10,000,000</u>
Basic and diluted earnings per share	<u><u>1.11</u></u>

Saudi Finance Company - Saudi Closed Joint Stock Company

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2015

20 RELATED PARTY TRANSACTIONS AND BALANCES

a) Significant transactions arising from transactions with related parties are as follows:

<i>Related Party</i>	<i>Nature of Transaction</i>	<i>For the period from 28 October 2014 to 31 December 2015 SR</i>
Shareholders	Rent	222,000
	Financing	472,444
	Collection fees	130,919
Affiliates	Management fees (see note below)*	3,838,199
	Special commission expenses	2,183,298
	Special commission income from Murabaha contracts	654,275
	Expenses paid on behalf of affiliates	642,960

* The Company charges management fees to a related party at terms approved by the Company's management.

- b) The compensation of key management personnel for the period amounts to SR 4,274,446.
 c) The Company borrows from a related party to meet its funding requirements.
 d) The following receivable and payable balances arose as a result of transactions with related parties:

<i>Related party</i>	<i>Name</i>	<i>Balances 31 December 2015 SR</i>
Due from:		
Affiliates	Abu Dhabi Islamic Bank PJSC	693,159
	Various (Murabaha receivable)	1,937,128
Due to:		
Shareholder	Abdullah Ibrahim Al Khorayef Sons Company K.S.A	472,444
Affiliates	Abu Dhabi Islamic Bank PJSC (Funding from financial institutions)	175,000,000

21 FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

The principal or the most advantageous market must be accessible to by the Company.

Financial instruments comprise financial asset and financial liabilities.

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

21 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

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

Financial assets consist of cash and cash equivalents, restricted cash deposits, Murabaha receivables and accrued income and other receivables. Financial liabilities consist of accounts payable, accruals and other liabilities and funding from financial institutions. Management has classified all the financial assets and financial liabilities within level 2 of fair value hierarchy.

Management believes that the fair values of the financial assets and liabilities of the Company at the reporting dates approximate their carrying values.

For assets and liabilities that are recognised 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.

The Company's management determines the policies and procedures for both recurring fair value measurement, and for non-recurring measurement.

There have been no transfers to and from Level 2 during the period.

22 RISK MANAGEMENT

Financial instruments carried on the statement of financial position comprise cash and cash equivalent, restricted cash deposits, Murabaha receivables, accrued income and other receivables and funding from financial institutions and accounts payable, accruals and other liabilities.

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's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

Risk management is carried out under policies approved by the management. The management identifies, evaluates and hedges financial risks and has written principles for overall risk management covering specific areas, such as foreign exchange risk, special commission rate risk, credit risk, and investment of excess liquidity.

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 security deposits and personal guarantees.

Concentration 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. Concentration of credit risk indicates the relative sensitivity of the Company's performance to developments affecting a particular industry or geographical location.

Saudi Finance Company - Saudi Closed Joint Stock Company

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2015

22 RISK MANAGEMENT (continued)

Credit risk (continued)

The credit risks on gross amounts due in relation to the investment in Murabaha receivable is mitigated by the retention of title on leased assets and security deposits.

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

The carrying amount of financial assets represents the maximum credit exposure. The Company's maximum exposure to credit risk at the reporting date was on account of:

	SR
Cash at bank	12,715,524
Restricted cash deposits	8,958,864
Murabaha receivables, net	371,392,073
Accrued income and other receivables	2,160,532
	<u>395,226,993</u>

Following are the details of credit quality of Murabaha receivables.

	<i>Murabaha Receivables</i> SR
<i>Neither past due not impaired</i>	172,586,206
<i>Past due but not impaired:</i>	
From 1 day to 30 days	87,732,981
From 31 day to 90 days	84,983,059
From 91 day to 180 days	13,747,447
From 181 day to 360 days	9,603,905
More than 361 days	2,738,475
Total	<u>371,392,073</u>

Special commission rate risk

Special commission rate risk is the uncertainty of future earnings resulting from fluctuations in special commission rates. The risk arises when there is a mismatch in the assets and liabilities which are subject to special commission rate adjustment within a specified period. The most important source of such special commission rate risk is the Company's funding from financial institutions, and investment and financing activities, where fluctuations in special commission rates, if any, are reflected in the results of operations.

The following table depicts the sensitivity to a reasonable possible change in special commission rates, with other variables held constant, on the Company's statement of comprehensive income. The sensitivity of the income is the effect of the assumed changes in special commission rates on the net commission income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at 31 December 2015. All the exposures are monitored and analysed in major currency concentrations and relevant sensitivities are disclosed in SR.

	2015	Impact on net income SR
	Change in basis points	
Saudi Riyal	+25	436,070
Saudi Riyal	-25	(436,070)

Saudi Finance Company - Saudi Closed Joint Stock Company

NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2015

22 RISK MANAGEMENT (continued)

Liquidity risk

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

a) Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Company's financial liabilities at 31 December 2015 based on contractual undiscounted repayment obligations. The contractual maturities of liabilities have been determined based on the remaining period at the statement of financial position date to the contractual maturity date.

	Fixed maturity				Total
	No fixed maturity SR	Within 3 months SR	3 to 12 months SR	1 to 5 years SR	
31 December 2015					
Accounts payable, accruals and others	-	8,954,489	2,356,405	-	11,310,894
Funding from financial institutions	-	186,975,182	29,726,516	53,578,019	270,279,717
Total	-	195,929,671	32,082,921	53,578,019	281,590,611

Saudi Finance Company - Saudi Closed Joint Stock Company
 NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2015

22 RISK MANAGEMENT (continued)

Liquidity risk (continued)

b) *Analysis of financial assets and liabilities according to when they are expected to be recovered or settled*

The table shows an analysis of financial assets and liabilities according to when they are expected to be recovered or settled:

31 December 2015	Fixed maturity				Total SR
	No fixed maturity SR	Within 3 months SR	3 to 12 months SR	1 to 5 years SR	
Assets					
Cash and cash equivalents	12,726,130	-	-	-	12,726,130
Restricted cash deposits	-	-	-	8,958,864	8,958,864
Murabaha receivables, net	-	50,770,042	103,561,110	217,060,921	371,392,073
Accrued income and other receivables	-	744,879	1,415,653	-	2,160,532
Financial assets	<u>12,726,130</u>	<u>51,514,921</u>	<u>104,976,763</u>	<u>226,019,785</u>	<u>395,237,599</u>
Liabilities					
Accounts payable, accruals and others	-	8,954,489	2,356,405	-	11,310,894
Funding from financial institutions	-	185,443,409	27,780,378	51,284,637	264,508,424
Financial Liabilities	<u>-</u>	<u>194,397,898</u>	<u>30,136,783</u>	<u>51,284,637</u>	<u>275,819,318</u>
Net	<u>12,726,130</u>	<u>(142,882,977)</u>	<u>74,839,980</u>	<u>174,735,148</u>	<u>119,418,281</u>

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. Since Saudi Riyals is on a fixed parity to the US Dollar, management believes that the Company is not subject to any significant currency risk.

22 RISK MANAGEMENT (continued)

Legal risk

Title deed of the real estate properties are registered in the name of an affiliated company. The enforceability of any related rights and obligations are subject to interpretation and enforceability in the relevant courts of law.

23 SIGNIFICANT STANDARDS ISSUED BUT NOT YET EFFECTIVE

A number of new standards and interpretations have been issued but are not yet effective. The Company intends to adopt all the applicable standards and interpretations when these become effective. Management has assessed the impact of these new standards and interpretations and believes that none of these would have any effect on the future financial statements of the Company except for the following:

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2019 with early adoption permitted. The Company is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but no impact on the classification and measurement of the Company's financial liabilities. The Company is currently assessing the impact of IFRS 9 and plans to adopt the new standard on the required effective date

24 OPERATING LEASES – COMPANY AS LESSEE

The future minimum lease payments under non-cancellable operating leases where the Company is the lessee are as follows:

	<i>31 December 2015 (SR '000)</i>
Within 1 year	2,641,600
After 1 year, but not more than 5 years	10,369,789
More than 5 years	1,410,169
	<hr/> <u>14,421,558</u> <hr/>

25 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on 15 Jumad Al-Thani 1437H (corresponding to 24 March 2016).