

Saudi Finance Company
(A Saudi Closed Joint Stock Company)

FINANCIAL STATEMENTS

31 DECEMBER 2016

**AUDITORS' REPORT TO THE SHAREHOLDERS OF
SAUDI FINANCE COMPANY
(A 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 2016 and the related statements of comprehensive income, changes in shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management and have been prepared by them in accordance with the requirements 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 2016 and the results of its operations and its cash flows for the year in accordance with International Financial Reporting Standards.
- ii) comply with the requirements of the Regulations for Companies and the Company's bylaws 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: 1 Jumad Al Thani 1438H
(28 February 2017)

Saudi Finance Company – A Saudi Closed Joint Stock Company

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

		<i>For the year ended</i> 31 December 2016	<i>For the period from</i> <i>28 October 2014 to</i> 31 December 2015
	<i>Notes</i>	SR	SR
Special commission income		70,156,561	68,704,580
Financing facility cost and charges (special commission expenses)		<u>(10,127,527)</u>	<u>(5,843,570)</u>
NET SPECIAL COMMISSION INCOME		60,029,034	62,861,010
<i>Other operating income</i>			
Management fees	18	1,848,588	3,838,199
Other income		<u>559,928</u>	<u>248,290</u>
		62,437,550	66,947,499
<i>Operating expenses</i>			
General and administration expenses	5	(29,431,322)	(33,471,499)
Selling and marketing expenses	6	(6,974,552)	(8,649,594)
Impairment loss on Murabaha receivables	8	(9,080,000)	(8,793,355)
Unrealised (loss) gain on profit rate swap	9.1	<u>(332,735)</u>	<u>18,370</u>
NET PROFIT BEFORE ZAKAT		16,618,941	16,051,421
Zakat	13	<u>(4,608,861)</u>	<u>(4,988,179)</u>
NET PROFIT FOR THE YEAR		12,010,080	11,063,242
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE INCOME		<u>12,010,080</u>	<u>11,063,242</u>

The attached notes 1 to 24 form part of these financial statements

Saudi Finance Company – A Saudi Closed Joint Stock Company

STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	<i>Notes</i>	2016 SR	2015 SR
ASSETS			
Cash and cash equivalents	7	20,258,398	12,726,130
Restricted cash deposits	7	5,484,409	8,958,864
Murabaha receivables, net	8	363,936,528	371,392,073
Assets acquired in satisfaction of claims	8(a)	6,087,234	-
Prepayments, accrued income and other receivables	9	4,297,350	6,158,531
Property and equipment	10	5,869,566	7,555,301
Intangible assets	11	2,324,078	2,955,430
TOTAL ASSETS		408,257,563	409,746,329
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Financing from financial institutions	12	251,399,696	264,508,424
Provision for zakat	13	16,839,346	12,825,846
Accounts payable, accruals and others	14	6,661,800	11,310,894
Employees' terminal benefits	15	2,279,183	2,033,707
TOTAL LIABILITIES		277,180,025	290,678,871
SHAREHOLDERS' EQUITY			
Share capital	16	100,000,000	100,000,000
Statutory reserve	17	2,840,152	1,639,144
Retained earnings		28,237,386	17,428,314
TOTAL SHAREHOLDERS' EQUITY		131,077,538	119,067,458
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		408,257,563	409,746,329

The attached notes 1 to 24 form part of these financial statements

Saudi Finance Company – A Saudi Closed Joint Stock Company

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2016

	<i>Share capital SR</i>	<i>Statutory reserve SR</i>	<i>Retained earnings SR</i>	<i>Total SR</i>
Balance at 28 October 2014	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	-	-	-	-
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Total comprehensive income	-	-	11,063,242	11,063,242
Transfer to statutory reserve	-	1,106,324	(1,106,324)	-
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Balance at 31 December 2015	100,000,000	1,639,144	17,428,314	119,067,458
Net profit for the year	-	-	12,010,080	12,010,080
Other comprehensive income	-	-	-	-
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Total comprehensive income	-	-	12,010,080	12,010,080
Transfer to statutory reserve	-	1,201,008	(1,201,008)	-
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Balance at 31 December 2016	100,000,000	2,840,152	28,237,386	131,077,538
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Saudi Finance Company – A Saudi Closed Joint Stock Company

STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

		<i>For the year ended</i> 31 December 2016	<i>For the period from</i> <i>28 October 2014 to</i> 31 December 2015
	Notes	SR	SR
OPERATING ACTIVITIES			
Net profit before zakat		16,618,941	16,051,421
Non-cash adjustment to reconcile profit before zakat to net cash flows from operations:			
Depreciation	10	2,035,404	2,203,733
Amortisation of intangible assets	11	1,170,313	1,007,960
Provision for employees' terminal benefits	15	464,497	847,700
Impairment loss on Murabaha receivables	8	9,080,000	8,793,355
Unrealised loss (gain) on derivative	9.1	332,735	(18,370)
Gain on sale of property and equipment		(126,046)	-
		29,575,844	28,885,799
Working capital adjustments:			
Murabaha receivables		(7,711,689)	(127,319,382)
Prepayments, accrued income and other receivables		1,842,811	463,601
Accounts payable, accruals and others		(4,963,459)	(9,040,315)
Net cash from/(used in) operations		18,743,507	(107,010,297)
Employees' terminal benefits paid	15	(219,021)	(1,052,495)
Zakat paid	13	(595,361)	(266,079)
Net cash from/(used in) operating activities		17,929,125	(108,328,871)
INVESTING ACTIVITIES			
Purchase of property and equipment	10	(373,203)	(2,375,709)
Purchase of intangible assets	11	(538,961)	(207,834)
Proceeds from sale of property and equipment		149,580	-
Net cash used in investing activities		(762,584)	(2,583,543)
FINANCING ACTIVITIES			
Restricted cash deposits		(1,025,545)	(2,500,000)
Restricted cash deposits refunded		4,500,000	-
Financing from financial institutions		601,254,848	760,000,000
Repayment of financing from financial institutions		(614,363,576)	(646,874,918)
Net cash (used in)/from financing activities		(9,634,273)	110,625,082
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS		7,532,268	(287,332)
Cash and cash equivalents at beginning of the year/period		12,726,130	13,013,462
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD	7	20,258,398	12,726,130

The attached notes 1 to 24 form part of these financial statements

Saudi Finance Company – A Saudi Closed Joint Stock Company

STATEMENT OF CASH FLOWS (continued)

For the year ended 31 December 2016

		<i>For the year ended</i> 31 December 2016	<i>For the period from</i> 28 October 2014 to 31 December 2015
	<i>Notes</i>	SR	SR
Supplementary information:			
Special commission income received		<u>69,379,618</u>	<u>67,366,647</u>
Financing facility cost and charges (special commission expenses) paid		<u>7,629,295</u>	<u>5,226,737</u>
Supplemental non-cash information:			
Transfer from property and equipment to intangible assets	10 and 11	-	<u>3,755,556</u>
Assets acquired in satisfaction of claims	8(a)	<u>6,087,234</u>	-
Murabaha receivables written off against related provisions	8	<u>15,051,677</u>	-

Saudi Finance Company – A Saudi Closed Joint Stock Company

NOTES TO FINANCIAL STATEMENTS

At 31 December 2016

1 ACTIVITIES

Saudi Finance Company (formerly known as “Saudi Installment House 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 Authority (“SAMA”) approval number 351000071328 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”.

2 BASIS OF PREPARATION

Statement of compliance

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.

In accordance with the Company’s by-laws, the first fiscal year of the Company after conversion to closed joint stock company (note 1) should cover comparative information for the period from 28 October 2014 to 31 December 2015. Accordingly, the comparative information is not comparable. These financial statements are for the year ended 31 December 2016 and have been prepared by the Company in accordance with International Financial Reporting standards (“IFRS”).

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 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 profit rate swap 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 year. Significant estimates used by the Company’s management in the preparation of Company’s financial statements are disclosed in note 4.

Saudi Finance Company – A Saudi Closed Joint Stock Company

NOTES TO FINANCIAL STATEMENTS (continued)

At 31 December 2016

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 an asset and sells it to the customer. The customer sells the underlying asset 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.

Assets acquired in satisfaction of claims

Assets acquired in satisfaction of claims are the assets acquired in exchange for claims in order to achieve an orderly realization. The asset acquired are recognised at the lower of its fair value less costs to sell and the carrying amount of the claim net of provision for impairment at the date of exchange.

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.

Saudi Finance Company – A Saudi Closed Joint Stock Company

NOTES TO FINANCIAL STATEMENTS (continued)

At 31 December 2016

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 request received from the customer to buy. The selling price comprises the cost plus an agreed profit margin. Gross amounts due under the Murabaha contracts include the total of future sale payments on the Murabaha agreement (Murabaha contract receivable). The difference between the Murabaha contract 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 contract receivable.

Ijara receivables

Ijara finance is an agreement wherein gross amounts due under originated Ijara (finance) leases include the total of future lease payments on Ijara finance leases (lease contracts receivable), plus estimated residual amount receivable. The difference between the Ijara contract 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.

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 financing customer or a group of financing customers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default or delinquency in profit 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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

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.

Financial liabilities

Initial recognition and measurement

Most of the Company's financial liabilities are non-derivative financial liabilities. These are recognised initially at fair value plus directly attributable transaction costs. The Company's financial liabilities include trade and other payables and financing from financial institutions.

Subsequent measurement

After initial recognition, all non-derivative financial liabilities 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.

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 finance provider 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.

Offsetting

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 and exclude restricted cash deposits.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financing from financial institutions

Special commissions bearing financing 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 effect to retained earnings through other comprehensive income in the year in which they occur. Remeasurements are not reclassified to comprehensive income in subsequent years.

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 expense 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 administration expenses); and
- Net special commission expense or income (under financing 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 spot rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange prevailing at the reporting date. All differences are charged to the statement of comprehensive income.

Derivative financial instruments

Derivative financial instruments of the Company include profit rate swaps. Profit rate swaps (PRS) are initially recognised at fair value on the date on which a PRS contract is entered into and are subsequently re-measured at fair value. These 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 PRSs are taken directly to the statement of comprehensive income.

3(a) CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

The following authoritative pronouncements introduce certain improvements to existing standards, which did not have any impact on the accounting policies, the financial position or the performance of the Company:

- IFRS 7 Financial Instruments: Disclosures - The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

3(a) CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)

- IFRS 14 – Regulatory Deferral Accounts, allows an entity, whose activities are subject to rate regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first time adoption of IFRS.
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortizations.

Annual improvements to International Financial Reporting Standards - 2012-2014 cycle. These include:

- IAS 19 Employee Benefits - The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.
- IAS 1 Disclosure Initiative - The amendments clarify:
 - The materiality requirements in IAS 1.
 - That specific line items in the statements of profit or loss and other comprehensive income and the statement of financial position may be disaggregated.
 - Those entities have flexibility as to the order in which they present the notes to financial statements.
 - That the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to income.
 - Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statements of income and other comprehensive income

4 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. Therefore, the financial statements of the Company have been prepared on a going concern basis. The going concern assessment of the Company is based on a number of factors including availability of financing lines from various financial institutions including related parties and the growth of its Murabaha portfolio.

Saudi Finance Company – A Saudi Closed Joint Stock Company

NOTES TO FINANCIAL STATEMENTS (continued)

At 31 December 2016

4 SIGNIFICANT ACCOUNTING ESTIMATES (continued)

Useful lives of property and equipment and intangible assets

The Company's management determines the estimated useful lives of its property and equipment and intangible assets for calculating depreciation and amortisation. 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 and amortisation charge would be adjusted where the management believes the useful lives differ from previous estimates.

5 GENERAL AND ADMINISTRATION EXPENSES

	<i>For the year ended</i> 31 December 2016	<i>For the period from</i> 28 October 2014 to 31 December 2015
	SR	SR
Salaries and employee related costs	17,103,106	20,260,092
Rent expense	3,070,095	3,811,709
Professional fee	2,305,918	1,772,997
Depreciation (note 10)	2,035,404	2,203,733
Utilities expense	1,181,834	1,298,785
Amortisation of intangible assets (note 11)	1,170,313	1,007,960
Maintenance expense	972,795	1,036,058
Government relations expense	415,303	681,378
Others	1,176,554	1,398,787
	<u>29,431,322</u>	<u>33,471,499</u>

6 SELLING AND MARKETING EXPENSES

	<i>For the year ended</i> 31 December 2016	<i>For the period from</i> 28 October 2014 to 31 December 2015
	SR	SR
Salaries and employee related costs	5,702,241	6,796,761
Commission expense	979,961	992,568
Advertising and promotion	292,350	860,265
	<u>6,974,552</u>	<u>8,649,594</u>

7 CASH AND CASH EQUIVALENTS

	2016	2015
	SR	SR
Cash at bank	20,240,398	12,715,524
Cash in hand	18,000	10,606
	<u>20,258,398</u>	<u>12,726,130</u>

In addition to the above, the Company has restricted cash deposits of SR 5,484,409 (31 December 2015: SR 8,958,864) kept as call margins for certain financing facilities granted to the Company by counterparty finance providers.

Saudi Finance Company – A Saudi Closed Joint Stock Company

NOTES TO FINANCIAL STATEMENTS (continued)

At 31 December 2016

8 MURABAHA RECEIVABLES, NET

	2016 SR	2015 SR
Gross Murabaha receivables	501,362,194	520,908,747
Less: deferred profit	(123,833,880)	(129,953,211)
	<u>377,528,314</u>	<u>390,955,536</u>
Less: impairment provision against Murabaha receivables	(13,591,786)	(19,563,463)
Murabaha receivables, net	<u><u>363,936,528</u></u>	<u><u>371,392,073</u></u>

Gross Murabaha receivables include receivables from related parties amounting to SR 122,170 (31 December 2015: SR 2,037,081) and related deferred profit amounts to SR 2,520 (31 December 2015: SR 99,953). Murabaha receivables above also include Ijara receivables aggregating to SR 1,533,821 (31 December 2015: SR 1,492,580).

As at 31 December 2016, Murabaha receivables with nominal value of SR 13,591,786 (31 December 2015: SR 19,563,463) were impaired. The unimpaired Murabaha receivables include SR 195,680,892 (31 December 2015: 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:

	2016 SR	2015 SR
Gross Murabaha receivables due in:		
Less than one year	197,311,055	194,894,167
One to five years	304,051,139	326,013,276
Over five years	-	1,304
	<u>501,362,194</u>	<u>520,908,747</u>
Less: deferred profit		
Less than one year	(39,809,115)	(40,562,794)
One to five years	(84,024,765)	(89,390,033)
Over five years	-	(384)
	<u>(123,833,880)</u>	<u>(129,953,211)</u>
	<u><u>377,528,314</u></u>	<u><u>390,955,536</u></u>

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

	<i>For the year ended</i> 31 December 2016 SR	<i>For the period from</i> 28 October 2014 to 31 December 2015 SR
Balance at beginning of the year/period	19,563,463	10,770,108
Impairment charge for the year/period	9,080,000	8,793,355
Written off during the year/period	(15,051,677)	-
Balance at end of the year/period	<u><u>13,591,786</u></u>	<u><u>19,563,463</u></u>

Saudi Finance Company – A Saudi Closed Joint Stock Company

NOTES TO FINANCIAL STATEMENTS (continued)

At 31 December 2016

8(a) ASSETS ACQUIRED IN SATISFACTION OF CLAIMS

During 2016, the Company has acquired certain real estate properties in satisfaction of a claim in order to achieve an orderly realization of Murabaha receivables amounting to SR 6,087,234.

These properties are legally owned by one of the board members of the Company for the sole benefit of the Company.

9 PREPAYMENTS, ACCRUED INCOME AND OTHER RECEIVABLES

	2016 SR	2015 SR
Prepaid expenses	3,254,738	3,997,999
Due from a related party (note 18)	427,752	693,159
Special commission income receivable	51,074	249,595
Commission receivable	-	272,862
Unrealised gain on profit rate swap (see note 9.1)	-	18,370
Other receivables	563,786	926,546
	<u>4,297,350</u>	<u>6,158,531</u>

9.1 This represents unrealised mark to market loss/gain on a profit rate swap with a notional principal amounting to SR 42,814,719 as of 31 December 2016 (31 December 2015: SR 22,627,498). Also see note 14.

Profit rate swap 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 profit rate swap contract may have a significant impact on the income of the Company.

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

At 31 December 2016

10 PROPERTY AND EQUIPMENT

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

Leasehold improvements Office equipment	7 years 4 years	Leasehold improvements SR	Office equipment SR	Furniture and fixtures Motor vehicles	Furniture and fixtures SR	Motor vehicles SR	Capital work in progress SR	For the year ended		For the period from	
								31 December 2016 SR	31 December 2015 SR	28 October 2014 to 31 December 2015	31 December 2015 SR
Cost:											
At beginning of the year/period		5,512,293	3,845,371	2,619,582	824,527	-	-	12,801,773	14,775,003		
Additions		-	8,550	4,650	-	360,003	-	373,203	2,375,709		
Transfers		44,650	33,143	229,447	-	(307,240)	-	-	-		
Disposals		-	-	-	(474,927)	-	-	(474,927)	-		
Transfers to intangible assets*		-	-	-	-	-	-	-	(4,348,939)		
At end of the year/period		5,556,943	3,887,064	2,853,679	349,600	52,763	-	12,700,049	12,801,773		
Accumulated depreciation:											
At beginning of the year/period		1,379,983	2,137,813	1,189,972	538,704	-	-	5,246,472	3,636,122		
Depreciation charge for the year/period		791,550	829,766	310,440	103,648	-	-	2,035,404	2,203,733		
Relating to disposals		-	-	-	(451,393)	-	-	(451,393)	-		
Relating to transfers to intangible assets*		-	-	-	-	-	-	-	(593,383)		
At end of the year/period		2,171,533	2,967,579	1,500,412	190,959	-	-	6,830,483	5,246,472		
Net book amounts:											
At 31 December 2016		3,385,410	919,485	1,353,267	158,641	52,763	-	5,869,566			
At 31 December 2015		4,132,310	1,707,558	1,429,610	285,823	-	-		7,555,301		

* The Company transferred balances of cost and accumulated amortisation of softwares from property and equipment to intangible assets during 2015.

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NOTES TO FINANCIAL STATEMENTS (continued)

At 31 December 2016

11 INTANGIBLE ASSETS

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

	Software SR	Capital work in progress SR	For the year ended 31 December 2016 SR	For the period from 28 October 2014 to 31 December 2015 SR
Cost				
At beginning of the year/period	4,395,969	160,804	4,556,773	-
Additions	68,385	470,576	538,961	207,834
Transfers	574,588	(574,588)	-	-
Transfers from property and equipment	-	-	-	4,348,939
	<u>5,038,942</u>	<u>56,792</u>	<u>5,095,734</u>	<u>4,556,773</u>
Accumulated amortisation:				
At beginning of the year/period	1,601,343	-	1,601,343	-
Amortisation charge for the year/period	1,170,313	-	1,170,313	1,007,960
Relating to transfers from property and equipment	-	-	-	593,383
	<u>2,771,656</u>	<u>-</u>	<u>2,771,656</u>	<u>1,601,343</u>
Net book amounts				
At 31 December 2016	<u>2,267,286</u>	<u>56,792</u>	<u>2,324,078</u>	
At 31 December 2015	<u>2,794,626</u>	<u>160,804</u>		<u>2,955,430</u>

12 FINANCING 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 profit at commercial rates. These facilities are repayable on a monthly/quarterly basis by various dates during 2017 and 2019.

The facility agreements include covenants which, among other things, require the Company to maintain certain financial ratios. As of 31 December 2016, the Company was not in compliance with certain covenants of the financing agreements. Management believes that the lenders will not exercise their right to demand accelerated / immediate payment of the outstanding balance from the Company.

Financing from financial institutions also include various short term facilities of three to twelve months obtained from Abu Dhabi Islamic Bank PJSC, UAE, a related party, carrying profit at commercial rates (note 18).

Saudi Finance Company – A Saudi Closed Joint Stock Company

NOTES TO FINANCIAL STATEMENTS (continued)

At 31 December 2016

13 ZAKAT

Charge for the year/period

The zakat charge amounting to SR 4,608,861 (period from 28 October 2014 to 31 December 2015: SR 4,988,179) consists of charge for the current year.

The charge for the year is based on the following zakat base:

	2016 SR	2015 SR
Equity	119,067,458	109,787,431
Opening allowances and other adjustments	47,993,977	50,863,164
Book value of long term assets	<u>(10,243,871)</u>	<u>(11,181,294)</u>
	156,817,564	149,469,301
Zakatable income for the year	<u>27,536,864</u>	<u>24,764,299</u>
Zakat base	<u>184,354,428</u>	<u>174,233,600</u>
Zakat from 1 January to 31 December	4,608,861	4,355,840
Zakat from 28 October 2014 to 31 December 2014	<u>-</u>	<u>632,339</u>
	<u>4,608,861</u>	<u>4,988,179</u>

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

Movements in provision during the year/period

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

	<i>For the year ended 31 December 2016 SR</i>	<i>For the period from 28 October 2014 to 31 December 2015 SR</i>
At beginning of the year/period	12,825,846	8,103,746
Charge for the year/period	4,608,861	4,988,179
Paid during the year/period	<u>(595,361)</u>	<u>(266,079)</u>
At end of the year/period	<u>16,839,346</u>	<u>12,825,846</u>

Status of assessments

During 2016, zakat assessments have been raised by the General Authority of Zakat and Tax (“GAZT”) for the years 2005 to 2007 assessing an additional zakat of SR 2,621,509 against which the Company has filed an appeal. No provision has been recorded in these financial statements in this respect, as the Company is confident of a favorable outcome on this matter. The Company has filed zakat returns and has obtained provisional zakat certificate for all the years up to 2015 and these are still under review by the GAZT. During 2016, the Company received certain queries related to the year 2014 from the GAZT and has sent its response to the GAZT.

Saudi Finance Company – A Saudi Closed Joint Stock Company

NOTES TO FINANCIAL STATEMENTS (continued)

At 31 December 2016

14 ACCOUNTS PAYABLE, ACCRUALS AND OTHERS

	2016 SR	2015 SR
Accrued expenses	5,395,962	2,356,405
Trade payables	658,175	7,976,459
Unrealised loss on profit rate swap (see note 9.1)	314,365	-
Amount due to a shareholder (note 18)	95,335	472,444
Others	197,963	505,586
	<u>6,661,800</u>	<u>11,310,894</u>

15 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 year ended 31 December 2016 SR</i>	<i>For the period from 28 October 2014 to 31 December 2015 SR</i>
At beginning of the year/period	2,033,707	2,238,502
Charge for the year/period	464,497	847,700
Payments made during the year/period	(219,021)	(1,052,495)
At end of the year/period	<u>2,279,183</u>	<u>2,033,707</u>

16 SHARE CAPITAL

The Company's authorised, issued and paid up share capital is SR 100 million (31 December 2015: SR 100 million) divided into 10 million shares with a nominal value of SR 10 each.

Paid in share capital as at 31 December 2016 and 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>100,000,000</u>

17 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. The Company has made transfers in these financial statements based on its net income as reported in its statutory financial statements.

Saudi Finance Company – A Saudi Closed Joint Stock Company

NOTES TO FINANCIAL STATEMENTS (continued)

At 31 December 2016

18 RELATED PARTY TRANSACTIONS AND BALANCES

a) Significant transactions with related parties during the year/period were as follows:

Related Party	Nature of Transaction	For the period from	
		For the year ended 31 December 2016	28 October 2014 to 31 December 2015
		SR	SR
Shareholders	Rent expense	222,000	259,000
	Collection fee income	59,970	130,919
Affiliates	Management fees (see note below)*	1,848,588	3,838,199
	Special commission expense	4,539,196	2,183,298
	Special commission income from Murabaha contracts	97,433	654,275
	Expenses paid on behalf of affiliates	427,752	642,960

* Management fees charged by the Company to a related party is approved by the Company's management.

- b) The compensation of key management personnel for the year amounts to SR 3,408,406 (for the period from 28 October 2014 to 31 December 2015: SR 4,274,446).
- c) The Company obtains financing from a related party to meet its financing requirements.
- d) Certain other related party transactions are disclosed under note 8 (a).
- e) The balances with related parties at the reporting date were as follows:

Related party Name	Balances	
	2016	2015
	SR	SR
Due from:		
Affiliates		
Abu Dhabi Islamic Bank PJSC	427,752	693,159
Various (Murabaha receivables)	119,650	1,937,128
Due to:		
Shareholder		
Abdullah Ibrahim Al Khorayef Sons Company K.S.A	95,335	472,444
Affiliates		
Abu Dhabi Islamic Bank PJSC (Financing from financial institutions)	165,000,000	175,000,000

19 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. Financial assets of the Company includes cash and cash equivalents, restricted cash deposits, Murabaha receivables, accrued income and other receivables. Financial liabilities of the Company include financing from financial institutions, accounts and other payables and accruals.

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NOTES TO FINANCIAL STATEMENTS (continued)

At 31 December 2016

19 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy

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

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

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

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

All the financial assets and liabilities of the Company are classified within level 2 of the fair value hierarchy except for Murabaha receivables and financing from financial institutions which are classified within level 3 of the fair value hierarchy.

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 and level 3 during the year.

Following table is a comparison of the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2016 and 31 December 2015.

	2016		2015	
	<i>Carrying amounts</i> SR	<i>Fair values</i> SR	<i>Carrying amounts</i> SR	<i>Fair values</i> SR
<i>Financial assets</i>				
Cash and cash equivalents	20,258,398	20,258,398	12,726,130	12,726,130
Restricted cash deposits	5,484,409	5,484,409	8,958,864	8,958,864
Murabaha receivables, net	363,936,528	370,245,324	371,392,073	376,267,850
Accrued income and other receivables	1,042,612	1,042,612	2,160,532	2,160,532
Total	390,721,947	397,030,743	395,237,599	400,113,376
<i>Financial liabilities</i>				
Accounts payable and accruals	6,661,800	6,661,800	11,310,894	11,310,894
Financing from financial institutions	251,399,696	243,423,757	264,508,424	258,686,723
Total	258,061,496	250,085,557	275,819,318	269,997,617

Saudi Finance Company – A Saudi Closed Joint Stock Company

NOTES TO FINANCIAL STATEMENTS (continued)

At 31 December 2016

20 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, financing from financial institutions, accounts and other payables and accruals.

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 assets 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 collaterals 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.

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:

	2016 SR	2015 SR
Cash at bank	20,240,398	12,715,524
Restricted cash deposits	5,484,409	8,958,864
Murabaha receivables, net	363,936,528	371,392,073
Accrued income and other receivables	1,042,612	2,160,532
	<u>390,703,947</u>	<u>395,226,993</u>

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NOTES TO FINANCIAL STATEMENTS (continued)

At 31 December 2016

20 RISK MANAGEMENT (continued)

Credit risk (continued)

Following are the details of credit quality of Murabaha receivables.

	<i>Murabaha receivables</i>	
	2016 SR	2015 SR
<i>Neither past due not impaired</i>	168,255,636	172,586,206
<i>Past due but not impaired:</i>		
From 1 day to 30 days	99,429,975	87,732,981
From 31 day to 90 days	79,398,303	84,983,059
From 91 day to 180 days	12,733,477	13,747,447
From 181 day to 360 days	4,119,137	9,603,905
More than 361 days	-	2,738,475
Total	<u>363,936,528</u>	<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 year. The most important source of such special commission rate risk is the Company's financing from financial institutions and Murabaha receivables, where fluctuations in special commission rates, if any, are reflected in the results of operations.

All of the Company's special commission bearing assets carry special commission at fixed rates and therefore, management believes that the Company is not exposed to any special commission rate risk in respect of these assets.

All of the special commission bearing borrowings of the Company carry special commission at variable rate. The Company uses derivative financial instruments (special commission rate swap) to hedge the Company's exposure to the fluctuations in special commission rates in respect of some of these borrowings and therefore management believes that the Company is not exposed to special commission rate risk in respect of such borrowings.

The following table depicts the sensitivity to a reasonable possible change in special commission rates, with other variables held constant, in respect of the Company's floating rate borrowings, which are not hedged using derivatives 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 borrowings of the Company held as at 31 December, which are not hedged using derivatives. All the exposures are monitored and analysed in major currency concentrations and relevant sensitivities are disclosed in SR.

	2016		2015	
	Change in basis points	Impact on net income for the year SR	Change in basis points	Impact on net income for the year SR
Saudi Riyals	+25	296,695	+25	436,070
Saudi Riyals	-25	(296,695)	-25	(436,070)

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NOTES TO FINANCIAL STATEMENTS (continued)

At 31 December 2016

20 RISK MANAGEMENT (continued)

Special commission rate risk (continued)

The Company is exposed to risks associated with the fluctuations in the levels of market special commission rates. The table below summarizes the Company's exposure to special commission rate risks. Included in the table are the Company's assets and liabilities at carrying amounts, categorized by the earlier of contractual repricing or maturity dates. The Company is exposed to special commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities that reprice or mature in a given period. The Company manages this risk by matching the repricing of assets and liabilities through risk management strategies.

	2016				Total SR
	Within 3 months SR	3 -12 months SR	1 to 5 years SR	Non commission bearing SR	
Assets					
Cash and cash equivalents	-	-	-	20,258,398	20,258,398
Restricted cash deposits	-	-	5,484,409	-	5,484,409
Murabaha receivables, net	51,300,364	100,880,304	211,755,860	-	363,936,528
Assets acquired in satisfaction of claims	-	-	-	6,087,234	6,087,234
Prepayments, accrued income and other receivables	-	-	-	4,297,350	4,297,350
Property and equipment	-	-	-	5,869,566	5,869,566
Intangible assets	-	-	-	2,324,078	2,324,078
Total assets	51,300,364	100,880,304	217,240,269	38,836,626	408,257,563
Liabilities					
Financing from financial institutions	48,679,813	180,824,491	21,895,392	-	251,399,696
Provision for zakat	-	-	-	16,839,346	16,839,346
Accounts payable, accruals and others	-	-	-	6,661,800	6,661,800
Employees' terminal benefits	-	-	-	2,279,183	2,279,183
Total liabilities	48,679,813	180,824,491	21,895,392	25,780,329	277,180,025
Total special commission rate sensitivity gap	2,620,551	(79,944,187)	195,344,877	13,056,297	131,077,538
Cumulative special commission rate sensitivity gap	2,620,551	(77,323,636)	118,021,241	131,077,538	131,077,538

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NOTES TO FINANCIAL STATEMENTS (continued)

At 31 December 2016

20 RISK MANAGEMENT (continued)

Special commission rate risk (continued)

	2015				
	Within 3 months SR	3 -12 months SR	1 to 5 years SR	Non commission bearing SR	Total SR
<i>Assets</i>					
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
Prepayments, accrued income and other receivables	-	-	-	6,158,531	6,158,531
Property and equipment	-	-	-	7,555,301	7,555,301
Intangible assets	-	-	-	2,955,430	2,955,430
Total assets	50,770,042	103,561,110	226,019,785	29,395,392	409,746,329
<i>Liabilities</i>					
Financing from financial institutions	217,945,000	18,404,000	28,159,424	-	264,508,424
Provision for zakat	-	-	-	12,825,846	12,825,846
Accounts payable, accruals and others	-	-	-	11,310,894	11,310,894
Employees' terminal benefits	-	-	-	2,033,707	2,033,707
Total liabilities	217,945,000	18,404,000	28,159,424	26,170,447	290,678,871
Total special commission rate sensitivity gap	(167,174,958)	85,157,110	197,860,361	3,224,945	119,067,458
Cumulative special commission rate sensitivity gap	(167,174,958)	(82,017,848)	115,842,513	119,067,458	119,067,458

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NOTES TO FINANCIAL STATEMENTS (continued)

At 31 December 2016

20 RISK MANAGEMENT (continued)

Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its net financing requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of financing to dry up immediately. Management monitors the maturity profile of the Company's assets and liabilities 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 2016 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.

	No fixed maturity SR	Fixed maturity			Total SR
		Within 3 months SR	3 to 12 months SR	1 to 5 years SR	
31 December 2016					
Accounts payable, accruals and others	-	1,067,875	5,593,925	-	6,661,800
Financing from financial institutions	-	11,708,393	195,904,975	55,024,081	262,637,449
Total	-	12,776,268	201,498,900	55,024,081	269,299,249
31 December 2015					
Accounts payable, accruals and others	-	8,954,489	2,356,405	-	11,310,894
Financing 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

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At 31 December 2016

20 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:

	<i>Fixed maturity</i>					<i>Total</i> SR
	<i>No fixed maturity</i> SR	<i>Within 3 months</i> SR	<i>3 to 12 months</i> SR	<i>1 to 5 years</i> SR		
31 December 2016						
<i>Assets</i>						
Cash and cash equivalents	20,258,398	-	-	-	-	20,258,398
Restricted cash deposits	-	-	-	5,484,409	-	5,484,409
Murabaha receivables, net	-	51,300,364	100,880,304	211,755,860	-	363,936,528
Accrued income and other receivables	-	427,752	614,860	-	-	1,042,612
Financial assets	20,258,398	51,728,116	101,495,164	217,240,269		390,721,947
<i>Liabilities</i>						
Accounts payable, accruals and others	-	1,067,875	5,593,925	-	-	6,661,800
Financing from financial institutions	-	9,554,358	190,013,810	51,831,528	-	251,399,696
Financial liabilities		10,622,233	195,607,735	51,831,528		258,061,496
Maturity gap	20,258,398	41,105,883	(94,112,571)	165,408,741		132,660,451
Cumulative maturity gap	20,258,398	61,364,281	(32,748,290)	132,660,451		

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NOTES TO FINANCIAL STATEMENTS (continued)

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20 RISK MANAGEMENT (continued)

Liquidity risk (continued)

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

	Fixed maturity				Total SR
	No fixed maturity SR	Within 3 months SR	3 to 12 months SR	1 to 5 years SR	
31 December 2015					
<i>Assets</i>					
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
<i>Financial assets</i>	<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>
<i>Liabilities</i>					
Accounts payable, accruals and others	-	8,954,489	2,356,405	-	11,310,894
Financing from financial institutions	-	185,443,409	27,780,378	51,284,637	264,508,424
<i>Financial liabilities</i>	<u>-</u>	<u>194,397,898</u>	<u>30,136,783</u>	<u>51,284,637</u>	<u>275,819,318</u>
<i>Maturity gap</i>	<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>
<i>Cumulative maturity gap</i>	<u>12,726,130</u>	<u>(130,156,847)</u>	<u>(55,316,867)</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.

20 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.

21 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 2018 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.

IFRS 16 Leases

In January 2016, the IASB issued the final version of IFRS 16 Leases which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 is effective for annual periods beginning on or after 1 January 2019 with early application permitted but only if it also applies IFRS 15 Revenue from Contracts with Customers.

The adoption of IFRS 16 will have an effect on the classification and measurement of the Company's leased assets. The Company is currently assessing the impact of IFRS 16 and plans to adopt the new standard on the required effective date.

Amendments to IAS 7 Statement of Cash Flows

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. Effective for the annual periods beginning on or after 1 January 2017.

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NOTES TO FINANCIAL STATEMENTS (continued)

At 31 December 2016

22 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</i> 2016 <i>SR</i>	<i>31 December</i> 2015 <i>SR</i>
Within 1 year	2,569,000	2,641,600
After 1 year, but not more than 5 years	9,733,458	10,369,789
More than 5 years	-	1,410,169
	<u>12,302,458</u>	<u>14,421,558</u>

23 COMPARATIVE FIGURES

Certain of the prior year amounts have been re-classified to conform with the current year's presentation.

24 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the management on 1 Jumad Al Thani 1438H (corresponding to 28 February 2017).