

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
INTERIM CONDENSED FINANCIAL STATEMENTS
(Unaudited)
For the nine months period ended 30 September 2020
Together with the
Independent auditor's review report

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
INTERIM CONDENSED FINANCIAL STATEMENTS
For the nine months period ended 30 September 2020

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Independent auditor's review report on the interim condensed financial statements

To the shareholders of Saudi Home Loans Company

Introduction

We have reviewed the accompanying 30 September 2020 interim condensed financial statements of **Saudi Home Loans Company** ("the Company"), which comprises:

- the interim condensed statement of financial position as at 30 September 2020;
- the interim condensed statement of income for the three months and nine months periods ended 30 September 2020;
- the interim condensed statement of comprehensive income for the three months and nine months periods ended 30 September 2020;
- the interim condensed statement of changes in equity for the nine months period ended 30 September 2020;
- the interim condensed statement of cash flows for the nine months period ended 30 September 2020; and
- the notes to the interim condensed financial statements.

Management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with the International Accounting Standard 34: *Interim Financial Reporting* ("IAS 34") as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

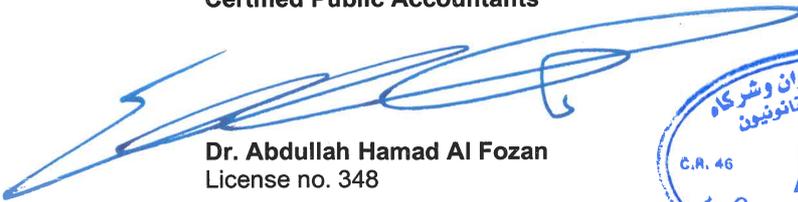
Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 September 2020 interim condensed financial statements of **Saudi Home Loans Company** are not prepared, in all material respects, in accordance with IAS 34 as endorsed in the Kingdom of Saudi Arabia.

For KPMG Al Fozan & Partners
Certified Public Accountants


Dr. Abdullah Hamad Al Fozan
License no. 348

11 Rabi Al-Awwal 1442H
Corresponding to: 28 October 2020



KPMG Al Fozan & Partners Certified Public Accountants, a registered company in the Kingdom of Saudi Arabia, and a non-partner member firm of the KPMG network of independent firms affiliated with KPMG International Cooperative, a Swiss entity.

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION
(Amounts in Saudi Riyals)

		As at 30 September 2020 (Unaudited)	As at 31 December 2019 (Audited)	As at 30 September 2019 (Unaudited)
<u>ASSETS</u>				
Cash and cash equivalents		122,907,884	54,199,589	90,890,296
Prepaid expenses and other assets, net	4	80,170,478	64,263,400	49,046,820
Advances to property owners	5	17,288,687	2,392,568	14,920,279
Due from related parties	6	668,124	765,379	1,610,827
Investment	7	892,850	892,850	892,850
Investments in finance lease, net	8	4,262,155,243	4,238,416,012	4,196,839,394
Deferred origination fees	9	23,077,968	25,791,599	26,695,188
Other real estate		8,807,546	6,963,475	5,736,294
Right-of-use asset		4,471,344	6,309,047	6,974,819
Property and equipment, net		4,585,083	4,767,583	4,917,932
Intangible assets, net		2,865,334	3,157,336	2,848,931
Deferred tax assets	13	4,954,388	4,563,723	3,942,572
Total assets		4,532,844,929	4,412,482,561	4,405,316,202
<u>LIABILITIES AND EQUITY</u>				
Liabilities				
Accounts payable	10	40,209,083	50,593,077	41,229,078
Accrued expenses and other liabilities	11	9,562,744	9,096,342	8,750,942
Advance lease rentals		8,280,570	7,496,185	9,528,152
Lease liability		3,841,748	5,929,977	6,341,328
Provision for zakat and income tax	12	24,344,784	27,978,017	39,977,677
Tawarruq financing facilities	14	2,881,515,704	2,801,922,613	2,798,903,711
End of service benefits	15	8,453,824	9,376,906	9,054,762
Total liabilities		2,976,208,457	2,912,393,117	2,913,785,650
Equity				
Share capital	16	1,000,000,000	1,000,000,000	1,000,000,000
Statutory reserve	17	103,255,283	97,648,519	100,113,691
Actuarial gains on end of service benefits		775,388	296,000	665,372
Retained earnings		452,605,801	402,144,925	390,751,489
Total equity		1,556,636,472	1,500,089,444	1,491,530,552
Total liabilities and equity		4,532,844,929	4,412,482,561	4,405,316,202

The accompanying notes from (1) to (27) are an integral part of these interim condensed financial statements.

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
INTERIM CONDENSED STATEMENT OF INCOME (UNAUDITED)
For the three months and nine months periods ended 30 September 2020
(Amounts in Saudi Riyals)

	<i>Notes</i>	<u>For the three months ended September 30</u>		<u>For the nine months ended September 30</u>	
		2020	2019	2020	2019
Lease finance income		71,758,595	74,657,467	217,021,458	224,300,874
Service fees, net	18	1,763,410	2,157,149	5,540,921	6,734,229
Application and evaluation fee income		1,135,591	1,169,913	3,997,800	2,438,867
Total operating income		<u>74,657,596</u>	<u>77,984,529</u>	<u>226,560,179</u>	<u>233,473,970</u>
Financing charges		(23,388,190)	(33,770,794)	(74,191,492)	(105,882,036)
General and administrative expenses	20	(19,406,299)	(13,901,535)	(55,897,336)	(41,184,492)
Reversal of / (provision for) expected credit losses	4, 8	5,542,972	341,540	(9,493,907)	2,163,190
Selling and marketing expenses	19	(7,054,045)	(7,005,928)	(22,924,481)	(19,877,695)
Net income before zakat and income tax		<u>30,352,034</u>	<u>23,647,812</u>	<u>64,052,963</u>	<u>68,692,937</u>
Zakat and income tax expense for the current period	12	(4,145,923)	(4,023,525)	(8,375,988)	(10,002,007)
Zakat for the prior periods	12	--	--	--	(12,831,866)
Deferred tax credit / (expense)	13	(305,233)	(57,857)	390,665	(126,104)
		<u>(4,451,156)</u>	<u>(4,081,382)</u>	<u>(7,985,323)</u>	<u>(22,959,977)</u>
Net income for the period		<u>25,900,878</u>	<u>19,566,430</u>	<u>56,067,640</u>	<u>45,732,960</u>

The accompanying notes from (1) to (27) are an integral part of these interim condensed financial statements.

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
For the three months and nine months periods ended 30 September 2020
(Amounts in Saudi Riyals)

	<i>Note</i>	For the three months ended September 30		For the nine months ended September 30	
		2020	2019	2020	2019
Net income for the period		25,900,878	19,566,430	56,067,640	45,732,960
Other comprehensive loss					
<i>Item that cannot be subsequently reclassified to the statement of income:</i>					
Actuarial gains on end of service benefits	15	642,972	696,199	479,388	258,402
Total comprehensive income for the period		26,543,850	20,262,629	56,547,028	45,991,362

The accompanying notes from (1) to (27) are an integral part of these interim condensed financial statements.

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
For the nine months period ended 30 September 2020
(Amounts in Saudi Riyals)

For the nine months period ended 30 September 2020					
<i>Note</i>	Share capital	Statutory reserve	Actuarial gains on EOSB	Retained Earnings	Total equity
Balance at beginning of the period	1,000,000,000	97,648,519	296,000	402,144,925	1,500,089,444
Net income for the period	--	--	--	56,067,640	56,067,640
Actuarial gains on end of service benefits	--	--	479,388	--	479,388
Total comprehensive income for the period	--	--	479,388	56,067,640	56,547,028
Transfer to statutory reserve	--	5,606,764	--	(5,606,764)	--
Balance at end of the period	1,000,000,000	103,255,283	775,388	452,605,801	1,556,636,472
For the nine months period ended 30 September 2019					
<i>Note</i>	Share Capital	Statutory reserve	Actuarial gains on EOSB	Retained earnings	Total equity
Balance at beginning of the period	1,000,000,000	95,540,395	406,970	349,591,825	1,445,539,190
Net income for the period	--	--	--	45,732,960	45,732,960
Actuarial gains on end of service benefits	--	--	258,402	--	258,402
Total comprehensive income for the period	--	--	258,402	45,732,960	45,991,362
Transfer to statutory reserve	--	4,573,296	--	(4,573,296)	--
Balance at end of the period	1,000,000,000	100,113,691	665,372	390,751,489	1,491,530,552

The accompanying notes from (1) to (27) are an integral part of these interim condensed financial statements.

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
INTERIM CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)
For the nine months period ended 30 September 2020
(Amounts in Saudi Riyals)

	<u>Notes</u>	<u>2020</u>	<u>2019</u>
OPERATING ACTIVITIES			
Net income before zakat and income tax		64,052,963	68,692,937
<i>Adjustments to reconcile net income before zakat and income tax to net cash generated from operating activities:</i>			
Depreciation and amortisation	20	4,049,890	3,937,472
Amortisation of deferred origination fees		2,925,559	3,170,090
Provision for / (reversal of) expected credit losses	4, 8	9,493,907	(2,163,190)
Provision for end of service benefits	15	1,415,288	1,409,335
Amortisation of discount on lease liability	20	249,877	313,855
<i>Net (increase) / decrease in operating assets:</i>			
Prepaid expenses and other assets, net		(18,250,819)	(11,010,310)
Due from related parties		97,255	(713,580)
Advance to property owner		(14,896,119)	(9,008,993)
Investments in finance lease, net		(33,236,809)	(6,693,430)
<i>Net increase / (decrease) in operating liabilities:</i>			
Accounts payable		(10,383,994)	10,291,177
Accrued expenses and other liabilities		955,473	1,767,302
Advance lease rentals		784,385	1,749,603
Net cash generated from operations		7,256,856	61,742,268
Zakat and income tax paid	12	(12,009,221)	(19,270,092)
End of service benefits paid	15	(1,858,982)	(686,487)
Deferred origination fees paid		(211,928)	(55,042)
Net cash (used in) / generated from operating activities		(6,823,275)	41,730,647
INVESTING ACTIVITIES			
Purchase of property and equipment		(785,241)	(1,984,879)
Purchase of intangible assets		(724,430)	(211,789)
Net cash used in investing activities		(1,509,671)	(2,196,668)
FINANCING ACTIVITIES			
Drawdown of Tawarruq financing facilities		160,801,378	311,834,325
Repayment of Tawarruq financing facilities		(81,208,288)	(337,168,775)
Payment of principal portion of lease liability		(2,551,849)	(2,952,567)
Net cash generated from / (used in) financing activities		77,041,241	(28,287,017)
Net increase in cash and cash equivalents		68,708,295	11,246,962
Cash and cash equivalents at beginning of the period		54,199,589	79,643,334
Cash and cash equivalents at end of the period		122,907,884	90,890,296
Supplemental cash information			
Lease finance income received		218,856,815	221,177,314
Financing charges paid		63,520,829	108,600,796
Supplemental non-cash information			
Capital work in progress transferred to intangible assets and property and equipment		1,309,880	598,698
Investments in finance lease transferred to other real estate		7,096,631	2,906,609

The accompanying notes from (1) to (27) are an integral part of these interim condensed financial statements.

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
For the nine months period ended 30 September 2020
(Amounts in Saudi Riyals)

1. ACTIVITIES

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

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

The principal activities of the Company are to finance the purchase of houses and residential land and apartments, financing of real estate properties that are developed by all companies operating in the real estate development and financing the establishment of commercial and industrial projects.

2. BASIS OF PREPARATION

a) *Statement of compliance*

The interim condensed financial statements of the Company as at and for the periods ended 30 September 2020 and 30 September 2019, have been prepared in accordance with the International Accounting Standard 34 Interim Financial Reporting ("IAS 34") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organisation for Certified Public Accountants ("SOCPA"). The interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual financial statements as at 31 December 2019.

The financial statements of the Company as at and for the year ended 31 December 2019, were prepared in accordance with the International Financial Reporting Standards as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the SOCPA.

b) *Basis of measurement*

These financial statements have been prepared on a historical cost basis, except for the equity investment which is measured at fair value through other comprehensive income ("FVOCI") and end of service benefits which is measured at present value of future obligations using the projected unit credit method.

c) *Functional and presentation currency*

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

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies, estimates and assumptions used in the preparation of these interim condensed financial statements are consistent with those used in the preparation of the annual financial statements as at and for the year ended 31 December 2019.

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
For the nine months period ended 30 September 2020
(Amounts in Saudi Riyals)

4. PREPAID EXPENSES AND OTHER ASSETS, NET

Prepaid expenses and other assets comprised of the following:

	30 September 2020 <u>(Unaudited)</u>	31 December 2019 <u>(Audited)</u>	30 September 2019 <u>(Unaudited)</u>
Insurance claims receivable on decess-case leases, net	32,121,370	24,013,559	18,556,073
VAT receivable	22,622,775	22,791,195	20,169,055
Due from REDF	9,577,111	9,354,696	-
Legal claim	7,512,577	1,018,356	1,018,356
Advance tax	2,566,580	3,783,371	2,522,248
Prepaid Insurance	1,559,241	43,447	1,070,415
Prepaid software maintenance	1,348,961	450,630	508,827
Prepaid financing facility fees (IFC)	1,174,828	1,409,800	1,488,124
Prepaid financing facility interest (IFC)	949,901	--	1,891,450
Prepaid financing facility fees (GIB)	506,250	862,500	1,031,250
Sijil registration charges	495,000	718,200	900,000
Employees' advances and receivables	188,558	130,818	197,157
Others	1,041,415	1,180,917	1,187,954
	81,664,567	65,757,489	50,540,909
Allowance for provision for legal claim	(1,494,089)	(1,494,089)	(1,494,089)
	80,170,478	64,263,400	49,046,820

4.1 The insurance claims receivable on decess-case lease, net is comprised of the following:

	30 September 2020 <u>(Unaudited)</u>	31 December 2019 <u>(Audited)</u>	30 September 2019 <u>(Unaudited)</u>
Insurance claims receivable on decess-case leases	46,060,081	36,111,870	30,845,640
Allowance for provision for ECL	(13,938,711)	(12,098,311)	(12,289,567)
	32,121,370	24,013,559	18,556,073

All insurance claims receivable on non-performing decess-case leases are classified as stage 3 in accordance with IFRS 9.

5. ADVANCES TO PROPERTY OWNERS

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

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
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6. RELATED PARTY TRANSACTIONS

In accordance with IAS 24 “Related Party Disclosures”, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The Company, in its ordinary course of business, transacts with the following related parties. The terms of those billings and charges are on an agreed basis with these related parties:

<u>Name</u>	<u>Relationship</u>
Arab National Bank	Shareholder
International Financial Corporation	Shareholder
Kingdom Installment Company	Shareholder
Dar Al Arkan	Shareholder
Afwaf Investment Company	Affiliate

The significant transactions during the period are as follows:

	30 September 2020 (Unaudited)	30 September 2019 (Unaudited)
Tawaruq financing charges (ANB)	49,551,283	82,052,489
Tawaruq financing charges (IFC)	5,129,003	7,763,452
Service fees, net (Note 18)	5,540,921	6,734,229
Residential unit purchased (Dar Alarkan)	15,998,854	10,773,200
Deferred origination fees	211,928	55,043

The following related party balances are included in the statement of financial position:

	30 September 2020 (Unaudited)	31 December 2019 (Audited)	30 September 2019 (Unaudited)
Loan obtained from a shareholder (ANB)	1,867,153,857	1,900,010,120	1,921,794,123
Loan obtained from a shareholder (IFC)	140,625,000	172,186,266	187,500,000
Deferred origination fees (Note 9)	23,077,968	25,791,599	26,695,188
Prepaid financing facility interest (IFC)	949,901	--	1,891,450
Prepaid financing facility fees (IFC)	1,174,828	1,409,800	1,488,124
Service fee (ANB)	668,124	765,379	1,610,827

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
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For the nine months period ended 30 September 2020
(Amounts in Saudi Riyals)

6. RELATED PARTY TRANSACTIONS (CONTINUED)

Compensation of key management personnel

The Company considers chief executive officer and chief operating officer as key management personnel and the composition is detailed below.

	30 September 2020 (Unaudited)	31 December 2019 (Audited)	30 September 2019 (Unaudited)
Salaries	1,780,282	2,108,571	1,535,578
End of service benefits	148,357	175,714	124,427
Other allowances	718,614	799,825	483,665
	<u>2,647,253</u>	<u>3,084,110</u>	<u>2,143,670</u>

7. INVESTMENT

On 17 December 2017, the Company purchased 89,285 shares of Saudi Financial Lease Contract Registry Company (“Sijil”) at SR 10 each, amounting to SR 892,850. The Company has elected to classify this equity investment as FVOCI. As at the date of these interim condensed financial statements, the carrying value of this investment is not materially different to its fair value.

8. INVESTMENTS IN FINANCE LEASE, NET

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

	30 September 2020 (Unaudited)	31 December 2019 (Audited)	30 September 2019 (Unaudited)
Minimum lease payments			
Performing leases	6,547,861,733	6,627,877,566	6,514,636,719
Non-performing leases	303,071,105	292,442,761	304,922,070
Investments in finance lease, gross	6,850,932,838	6,920,320,327	6,819,558,789
Less: Unearned finance income	(2,502,897,766)	(2,603,677,993)	(2,558,546,954)
Investments in finance lease before impairment	4,348,035,072	4,316,642,334	4,261,011,835
Less: Allowance for expected credit losses	(85,879,829)	(78,226,322)	(64,172,441)
Investments in finance lease, net	4,262,155,243	4,238,416,012	4,196,839,394
Less: Current portion	(281,401,654)	(272,351,588)	(269,109,866)
Less: Accrued finance lease receivable	(40,307,813)	(42,143,170)	(43,222,513)
Non-current portion	3,940,445,776	3,923,921,254	3,884,507,015

Total number of outstanding lease agreements as at 30 September 2020 is 7,085 (31 December 2019: 6,909; 30 September 2019: 6,756).

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
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For the nine months period ended 30 September 2020
(Amounts in Saudi Riyals)

8. INVESTMENTS IN FINANCE LEASE, NET (CONTINUED)

The Company generates substantially all of its revenues from leasing real estate in the Kingdom of Saudi Arabia. Gross amounts due in relation to the finance leases are due from individual customers. Title deeds of the underlying properties are in the name of the Company, except for those where the ownership has been transferred to Arab National Bank (a shareholder) in accordance with the terms of the facility agreement for Tawaruq Financing facilities (refer to Note 14), and for those where the ownership has been kept under the name of Kingdom Instalment Company (a shareholder) as a custodian in accordance with the custodian agreement.

8.1 The movement in the allowance for expected credit losses for investments is shown below:

	30 September 2020 (Unaudited)	31 December 2019 (Audited)	30 September 2019 (Unaudited)
Opening balance, as reported	78,226,322	66,899,663	66,899,663
Charge / (reversal) for the period	<u>7,653,507</u>	<u>11,326,659</u>	<u>(2,727,222)</u>
Closing balance	<u>85,879,829</u>	<u>78,226,322</u>	<u>64,172,441</u>

8.2 The credit quality of investments in finance lease as at 30 September 2020 (unaudited) is as follows:

	12 month ECL	Life time ECL not credit impaired	Life time ECL credit impaired	Total
Gross carrying amount	<u>3,631,565,409</u>	<u>479,305,054</u>	<u>237,164,609</u>	<u>4,348,035,072</u>
Allowance for expected credit losses	<u>(1,466,565)</u>	<u>(30,727,976)</u>	<u>(53,685,288)</u>	<u>(85,879,829)</u>
Net carrying amount	<u>3,630,098,844</u>	<u>448,577,078</u>	<u>183,479,321</u>	<u>4,262,155,243</u>

The credit quality of investments in finance lease as at 31 December 2019 (audited) is as follows:

	12 month ECL	Life time ECL not credit impaired	Life time ECL credit impaired	Total
Gross carrying amount	3,680,819,462	438,006,927	197,815,945	4,316,642,334
Allowance for expected credit losses	<u>(989,755)</u>	<u>(28,117,460)</u>	<u>(49,119,107)</u>	<u>(78,226,322)</u>
Net carrying amount	<u>3,679,829,707</u>	<u>409,889,467</u>	<u>148,696,838</u>	<u>4,238,416,012</u>

The credit quality of investments in finance lease as at 30 September 2019 (unaudited) is as follows:

	12 month ECL	Life time ECL not credit impaired	Life time ECL credit impaired	Total
Gross carrying amount	3,619,631,917	442,151,831	199,228,087	4,261,011,835
Allowance for expected credit losses	<u>(2,891,493)</u>	<u>(12,109,391)</u>	<u>(49,171,557)</u>	<u>(64,172,441)</u>
Net carrying amount	<u>3,616,740,424</u>	<u>430,042,440</u>	<u>150,056,530</u>	<u>4,196,839,394</u>

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8. INVESTMENTS IN FINANCE LEASE, NET (CONTINUED)

8.3 Maturity profile of the lease payments is as follows:

Year	30 September 2020 (unaudited)		31 December 2019 (audited)	30 September 2019 (unaudited)
	Minimum lease payments	Unearned finance income	Investments in finance lease	Investments in finance lease
Within one year	607,515,277	285,805,810	321,709,467	314,494,758
Year two	555,833,510	265,753,447	290,080,063	280,560,759
Year three	540,897,995	245,213,965	295,684,030	288,467,973
Year four	519,638,500	224,503,110	295,135,390	292,213,868
Year five and later	4,627,047,556	1,481,621,434	3,145,426,122	3,140,904,976
	6,850,932,838	2,502,897,766	4,348,035,072	4,316,642,334

8.4 Expected credit loss allowance on investments in finance lease as at 30 September 2020 (unaudited) is as follows:

Loss Allowance	12 Month ECL	Lifetime ECL		Total
		Not credit Impaired	Credit impaired	
Opening balance at 1 January 2020	989,755	28,117,460	49,119,107	78,226,322
Transfer to 12 Month ECL	77,545	(73,737)	(3,808)	--
Transfer to Lifetime ECL (not credit impaired)	(104,651)	531,131	(426,480)	--
Transfer to Lifetime ECL (credit impaired)	(10,095)	(2,954,471)	2,964,566	--
Net charge for the period	514,011	5,107,593	2,031,903	7,653,507
Closing balance as of 30 September 2020	1,466,565	30,727,976	53,685,288	85,879,829

Expected credit loss allowance on investments in finance lease as at 31 December 2019 (audited) is as follows:

Loss allowance	12 Month ECL	Lifetime ECL		Total
		Not credit Impaired	Credit impaired	
Opening balance at 1 January 2019	1,573,096	10,168,697	55,157,869	66,899,662
Transfer to 12 Month ECL	88,664	(81,027)	(7,637)	--
Transfer to Lifetime ECL (not credit impaired)	(64,932)	3,581,993	(3,517,061)	--
Transfer to Lifetime ECL (credit impaired)	(8,076)	(561,526)	569,602	--
Net charge for the period	(598,997)	15,009,323	(3,083,666)	11,326,660
Closing balance as of 31 December 2019	989,755	28,117,460	49,119,107	78,226,322

Expected credit loss allowance on investments in finance lease as at 30 September 2019 (unaudited) is as follows:

Loss allowance	12 Month ECL	Lifetime ECL		Total
		Not credit impaired	Credit impaired	
Opening balance at 1 January 2019	1,573,096	10,168,697	55,157,869	66,899,662
Transfer to 12 Month ECL	138,350	(122,202)	(16,148)	--
Transfer to Lifetime ECL (not credit impaired)	(69,433)	5,903,013	(5,833,580)	--
Transfer to Lifetime ECL (credit impaired)	--	--	--	--
Net charge for the period	1,249,480	(3,840,117)	(136,584)	(2,727,221)
Closing balance as of 30 September 2019	2,891,493	12,109,391	49,171,557	64,172,441

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8. INVESTMENTS IN FINANCE LEASE, NET (CONTINUED)

Collateral

The Company in the ordinary course of lending activities holds collateral as security to mitigate credit risk. These collaterals are primarily title deeds in the name of the Company, for properties that have been leased out to the portfolio of investments in finance lease. As at 30 September 2020, the carrying amount of gross non-performing leases amounted to SR 172.01 million (31 December 2019: SR 177.05 million and 30 September 2019: 172.01 million) and the fair value of identifiable real estate collateral held against them amounted to SR 233.23 million (31 December 2019: SR 214.71 million and 30 September 2019: SR 231.10 million). The Company has a policy to value every year, all real estate properties leased out, by involving approved appraisers.

SAMA program - customer support on deferral of financing

During April 2020, SAMA has issued a guidance to financing companies around providing the necessary support for individual customers that lost their jobs in the private sector due to COVID-19, whether directly or indirectly. Accordingly, the Company has received applications from various customers to avail this SAMA program and has effected the payment reliefs by extending the tenure of the applicable investments in finance lease for six months with no additional costs to be borne by the customer. The accounting impact of these changes in terms of the investments in finance lease has been assessed and are treated as per the requirements of IFRS 9 as modification in terms of arrangement. This resulted in the Company recognising a modification loss of SR 2.49 million, net of unwinding for the nine months period ended 30 September 2020. The impact of these modification losses was presented as part of lease finance income.

9. DEFERRED ORIGINATION FEES

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

	30 September 2020 <u>(Unaudited)</u>	31 December 2019 <u>(Audited)</u>	30 September 2019 <u>(Unaudited)</u>
Deferred origination fees	23,077,968	25,791,599	26,695,188
Less: Current portion	<u>(2,596,555)</u>	<u>(2,908,196)</u>	<u>(2,971,621)</u>
Non-current portion	<u>20,481,413</u>	<u>22,883,403</u>	<u>23,723,567</u>

10. ACCOUNTS PAYABLE

As at 30 September 2020, the Company's accounts payable includes an amount due to the Ministry of Housing ("MOH") which amounted to SR 31.75 million (31 December 2019: SR 41.5 million and 30 September 2019: SR 35.3 million). This represents purchase price of the properties where the Company has already entered into Ijarah finance lease contracts with customers while the title deeds are yet to be transferred in the name of the Company. As at 30 September 2020, the corresponding investments in finance lease to these contracts amounted to SR 30.79 million (31 December 2019: SR 40.3 million; and 30 September 2019: SR 34.72 million). As part of the agreement of the Company with MOH, the Company will only pay the purchase price of the properties to the MOH once the title deed of the properties was successfully transferred in the name of the Company.

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11. ACCRUED EXPENSES AND OTHER LIABILITIES

	30 September 2020 <u>(Unaudited)</u>	31 December 2019 <u>(Audited)</u>	30 September 2019 <u>(Unaudited)</u>
Employees' related expenses	6,267,115	5,570,132	5,933,075
Accrued insurance	1,170,074	1,421,442	1,124,871
Accrued legal and consultation fees	677,221	370,000	431,205
Provision for maintenance on finance lease contracts	424,800	424,800	275,910
Accrued origination fees	57,738	16,980	--
Others	965,796	1,292,988	985,881
Total	<u>9,562,744</u>	<u>9,096,342</u>	<u>8,750,942</u>

12. PROVISION FOR ZAKAT AND INCOME TAX

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

	30 September 2020 <u>(Unaudited)</u>	31 December 2019 <u>(Audited)</u>	30 September 2019 <u>(Unaudited)</u>
Balance, beginning of the period / year	27,978,017	36,413,896	36,413,896
Zakat and income tax expense for the current period/year	8,375,988	11,727,305	10,002,007
Zakat for the prior periods	--	12,831,866	12,831,866
Payment during the period / year	<u>(12,009,221)</u>	<u>(32,995,050)</u>	<u>(19,270,092)</u>
Balance, end of the period / year	<u>24,344,784</u>	<u>27,978,017</u>	<u>39,977,677</u>

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

13. DEFERRED TAX

	30 September 2020 <u>(Unaudited)</u>	31 December 2019 <u>(Restated)</u>	30 September 2019 <u>(Unaudited)</u>
Balance at the beginning of the period / year	4,563,723	4,068,676	4,068,676
Movement for the period	390,665	495,047	(126,104)
Balance at end of the period / year	<u>4,954,388</u>	<u>4,563,723</u>	<u>3,942,572</u>

The Company's deferred tax assets arise primarily from employees' end of service benefits liability and expected credit losses.

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14. TAWARRUQ FINANCING FACILITIES

	30 September 2020 (Unaudited)	31 December 2019 (Audited)	30 September 2019 (Unaudited)
Current portion of facilities	1,190,331,360	421,615,415	420,241,891
Non-current portion of facilities	1,672,705,124	2,372,498,640	2,373,902,486
Total excluding financial charges	2,863,036,484	2,794,114,055	2,794,144,377
Accrued Tawarruq financing charges	18,479,220	7,808,558	4,759,334
Total including financial charges	2,881,515,704	2,801,922,613	2,798,903,711

The following summarises the outstanding Tawarruq financing facilities from different banks and Saudi Real Estate Refinance Company (“SRC”) to finance the investments in finance lease as follows:

	30 September 2020 (Unaudited)	31 December 2019 (Audited)	30 September 2019 (Unaudited)
Arab National Bank	1,867,153,857	1,900,010,120	1,921,794,123
Gulf International Bank	402,712,562	401,395,147	407,346,029
International Finance Corporation	140,625,000	172,186,266	187,500,000
National Commercial Bank	395,563,807	328,331,080	282,263,559
Saudi Real Estate Refinance Company (“SRC”)	75,460,478	--	--
	2,881,515,704	2,801,922,613	2,798,903,711

All facilities are secured by promissory notes and assignment of contracts and proceeds from investments in finance lease, these facilities bear finance charges at interest margin plus 6 months SAIBOR. Facility repayment schedule is based on equal semi-annual or quarter payment.

In response to COVID-19, SAMA launched the *Private Sector Financing Support Program* (“PSFSP”) in March 2020 to provide the necessary support to the SME sector, including financing companies, through empowering and facilitating the financing community. Among others, the PSFSP includes deferred payments program which the Company availed.

As part of the deferred payments program, the management based on its assessment of the Company’s liquidity has notified the Company’s bank lenders during the Q1 and Q2 2020 where the Company opted to defer payments amounting to SR 352.19 million for six months on its lending facilities by deferring the instalments falling due within the period from 14 March 2020 to 14 September 2020 for a period of six months by increasing the facility tenure. The accounting impact of these changes in terms of the credit facilities has been assessed and are treated as per the requirements of IFRS 9 as modification in terms of arrangement. Since the inception of the deferred payments program by SAMA and by the end of Q3 2020, the Company has recognised SR 6.6 million of related modification gains of which SR 3.24 million have been unwound.

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15. END OF SERVICES BENEFITS

The Company operates an end of service benefit plan for its staff based on prevailing Saudi Labor Laws.

The movements in the present value of defined benefit obligation are as follows:

	30 September 2020 (Unaudited)	31 December 2019 (Audited)	30 September 2019 (Unaudited)
Defined benefit obligation at the beginning of the period / year	9,376,906	8,590,316	8,590,316
Current service cost	1,195,957	1,465,902	1,099,426
Interest cost on defined benefit obligation	219,331	413,212	309,909
Benefits paid to outgoing employees	(1,858,982)	(1,203,494)	(686,487)
Actuarial (gains) / losses on obligation	(479,388)	110,970	(258,402)
Defined benefit obligation at the end of the period / year	8,453,824	9,376,906	9,054,762

16. SHARE CAPITAL

The authorised, issued and fully paid share capital of the Company consists of 100 million shares of SAR 10 each.

The ownership of the Company's share capital is as follows:

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

17. STATUTORY RESERVE

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

18. SERVICE FEE, NET

In 2014, the Company entered into an Asset Sale Agreement with Arab National Bank ("ANB") to sell investments in finance lease with a carrying value of SR 706.5 million represented by 1,404 deals in settlement of facilities equal to the carrying value of these investments in finance lease. Service fees earned from sold portfolio during the period ended 30 September 2020 amounted to SR 5.54 million (SR 6.73 million during the period ended 30 September 2019).

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19. SELLING AND MARKETING EXPENSES

	For the three months ended		For the nine months ended	
	September (Unaudited)		September 30 (Unaudited)	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Insurance expenses	3,878,411	3,242,831	11,597,136	9,708,099
Origination expenses	1,006,922	1,089,127	2,925,559	3,170,091
Sales, collection and title transfer commission	1,170,411	1,045,934	4,128,898	3,101,357
Marketing expenses	287,301	969,084	2,047,967	2,327,199
Evaluation fees	618,000	607,950	1,976,400	1,423,950
Others	93,000	51,002	248,521	146,999
	<u>7,054,045</u>	<u>7,005,928</u>	<u>22,924,481</u>	<u>19,877,695</u>

20. GENERAL AND ADMINISTRATIVE EXPENSES

	For the three months ended		For the nine months ended	
	September 30 (Unaudited)		September 30 (Unaudited)	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Employees' salaries and other benefits	13,666,434	10,510,706	37,730,859	30,636,012
Depreciation and amortisation	1,219,362	1,372,478	4,049,890	3,938,472
Consultation fees	787,652	529,582	3,884,986	2,168,468
Software support charges	549,071	438,806	1,357,095	1,131,670
Telecommunication expenses	210,000	171,059	644,980	523,058
VAT expense	133,078	108,094	385,887	299,765
Bank charges	115,513	127,835	358,715	350,959
Repairs and maintenance	85,675	50,213	388,420	231,602
Amortization of discount on lease liability	88,149	114,531	249,877	313,855
Travel expenses	79,975	145,361	276,885	540,834
Printing and stationary	64,776	32,724	169,085	100,665
Recruitment related expenses	44,349	58,655	138,458	178,677
Impairment loss on other real estate	1,824,684	--	4,605,854	--
Withholding tax	--	2,437	11,287	24,271
Others	537,581	240,054	1,645,058	747,184
	<u>19,406,299</u>	<u>13,901,535</u>	<u>55,897,336</u>	<u>41,184,492</u>

21. FAIR VALUE 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 asset or liability, the principal or the most advantageous market is accessible by the Company.

Financial instruments comprise of investments in finance leases, net.

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21. FAIR VALUE 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 financial assets (including lease receivables) and financial liabilities, except the Company's equity investments in SFLCRC (note 7), are measured at amortized cost. The carrying amounts of all financial assets and financial liabilities measured at amortized cost approximate their fair values except for net investments in finance leases. These are categorised as Level 3 in the fair value hierarchy.

Tawarruq financing facilities bear floating rate of interest based on SIBOR and hence, there is no difference between the carrying value and fair value. Other financial liabilities such as accounts payable and accrued expenses and other liabilities approximate their fair values due to their short term in nature.

The fair value of net investments in finance leases are as follows:

	<u>Carrying value</u>	<u>30 September 2020 (Unaudited)</u>			<u>Total</u>
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Net investments in finance leases	4,262,155,243	--	--	4,271,125,545	4,271,125,545
Total		<u>--</u>	<u>--</u>	<u>4,271,125,545</u>	<u>4,271,125,545</u>
		<u>31 December 2019 (Audited)</u>			
	<u>Carrying value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Net investments in finance leases	4,238,416,012	--	--	4,233,224,682	4,233,224,682
Total		<u>--</u>	<u>--</u>	<u>4,233,224,682</u>	<u>4,233,224,682</u>
		<u>30 September 2019 (Unaudited)</u>			
	<u>Carrying value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Net investments in finance leases	4,196,839,394	--	--	4,183,585,886	4,183,585,886
Total		<u>--</u>	<u>--</u>	<u>4,183,585,886</u>	<u>4,183,585,886</u>

As at the date of these interim condensed financial statements, the carrying value of the investments measured at FVOCI is not materially different to its fair value.

The fair value of net investment in finance lease is determined using discounted cash flow technique considering market rates. The market rates are determined based on expected Saudi Arabian Interbank Offered Rate plus credit spread based on the risk profile of the lease receivables. There had been no inter-level transfers during the period/year.

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22. CAPITAL MANAGEMENT

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

	30 September 2020 <u>(Unaudited)</u>	31 December 2019 <u>(Audited)</u>	30 September 2019 <u>(Unaudited)</u>
Total capital ratio %	22.36%	22.83%	22.70%

The capital ratio above is calculated by dividing the Company's total share capital with the weighted average total assets of the Company as at period-end / year-end. The Company has a capital of SR 1 billion (100 million share).

23. COMMITMENT AND CONTINGENCIES

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

24. IMPACT OF COVID-19 TO THE COMPANY

The Coronavirus ("COVID-19") pandemic continues to disrupt global markets as many geographies are beginning to experience a "second wave" of infections despite having previously controlled the outbreak through aggressive precautionary measures such as imposing restrictions on travel, lockdowns and strict social distancing rules. The Government of Kingdom of Saudi Arabia ("the Government") however has managed to successfully control the outbreak to date, owing primarily to the effective measures taken by the Government, following which the Government has now ended the lockdowns and has begun taking phased measures to normalize international travel and resume Umrah pilgrimages.

The Company continues to be cognisant of both the micro and macroeconomic challenges that COVID-19 has posed, the teething effects of which may be felt for some time, and is closely monitoring its exposures at a granular level. This has entailed reviewing the Company's different segments.

The Company has also revised certain inputs and assumptions used for the determination of expected credit losses ("ECL") which resulted in an additional ECL of SR 1.04 million. The revisions mainly revolved around:

- adjusting macroeconomic factors/inputs used by the Company; and
- recalibration of the probability of defaults.

The Company's ECL model continues to be sensitive to the above assumptions and are continually reassessed as part of its business as usual model refinement exercise which is in progress with an external consultant. As with any forecasts, the projections and likelihoods of occurrence are underpinned by significant judgement and uncertainty and therefore, the actual outcomes may be different to those projected.

SAMA programs and initiatives launched

In response to COVID-19, SAMA launched the *Private Sector Financing Support Program* ("PSFSP") in March 2020 to provide the necessary support to the MSME sector, including financing companies, through empowering and facilitating the financing community. Among others, the PSFSP includes deferred payments program which the Company availed and discussed in note 14 to the interim condensed financial statements.

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24. IMPACT OF COVID-19 TO THE COMPANY (CONTINUED)

Furthermore, SAMA has issued guidance in April 2020 to financing companies relating to providing the necessary support for individual customers that have lost their jobs in the private sector due to COVID-19, whether directly or indirectly. The impact of this to the Company have been detailed in note 8.

25. SUBSEQUENT EVENTS

There have been no events subsequent to the reporting date that would require adjustment nor disclosure to the interim condensed financial statements.

26. COMPARATIVE FIGURES

Certain prior period figures have been reclassified to conform with the current period's presentation.

27. APPROVAL OF THE BOARD OF DIRECTORS

These financial statements were approved by the Board of Directors on 8 Rabi Al Awwal 1442H (corresponding to 25 October 2020).