

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
Interim Condensed Financial Statements
(Unaudited)
For the nine-month period ended 30 September 2018
Together with the
Independent Auditors' Report on Review of
Interim Condensed Financial Statements

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
Unaudited Interim Condensed Financial Statements
For the Nine Month Period Ended 30 September 2018
(Saudi Riyals)

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Independent Auditors' Report on Review of Interim Condensed Financial Statements

**To the Shareholders of Saudi Home Loans Company
(A Saudi Closed Joint Stock Company)
Riyadh, Kingdom of Saudi Arabia**

Introduction

We have reviewed the accompanying 30 September 2018 condensed interim financial statements of Saudi Home Loans Company ("the Company"), which comprises:

- the interim condensed statement of financial position as at 30 September 2018;
- the interim condensed statement of income for the three-month and nine-month periods ended 30 September 2018;
- the interim condensed statement of comprehensive income for the three-month and nine-month periods ended 30 September 2018;
- the interim condensed statement of changes in equity for the nine-month period ended 30 September 2018;
- the interim condensed statement of cash flows for the nine-month period ended 30 September 2018; 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 IAS 34 *Interim Financial Reporting* ("IAS 34") as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" 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 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 2018 interim condensed financial statements of Saudi Home Loans Company are not prepared, in all material respects, in accordance with IAS 34 as modified by SAMA for the accounting of zakat and income tax.

**For KPMG Al Fozan & Partners
Certified Public Accountants**



Abdullah Hamad Al Fozan
Licence No. 348

Riyadh on: 16 Safar 1440H
Corresponding to: 25 October 2018



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

		30 September 2018 <u>Notes</u> <u>(Unaudited)</u>	31 December 2017 (Audited) (Restated)	30 September 2017 (Unaudited)
<u>ASSETS</u>				
Cash and cash equivalents		127,680,737	25,086,478	70,740,305
Prepaid expenses and other assets, net	5	27,066,611	23,739,306	25,792,707
Advances to property owners	6	2,267,000	11,756,000	9,050,000
Due from related parties	7	929,978	1,031,358	1,062,457
Investment	8	892,850	892,850	--
Investments in finance lease - net	9	4,154,029,752	4,158,225,388	4,106,192,901
Deferred origination fees	10	30,496,788	32,437,315	32,811,538
Other real estate		2,829,685	1,079,685	1,079,685
Property and equipment, net		4,356,201	4,599,050	4,601,142
Intangible assets, net		3,578,808	4,629,601	4,548,580
Total assets		4,354,128,410	4,263,477,031	4,255,879,315
<u>LIABILITIES AND EQUITY</u>				
Liabilities				
Accounts payable	11	15,373,239	1,755,816	634,320
Accrued expenses and other liabilities	12	7,262,825	5,841,429	9,135,157
Advance lease rentals		7,239,717	11,604,229	8,996,524
Provision for zakat and income tax	13	5,263,609	6,655,591	4,624,594
Tawarruq financing facilities	14	2,861,205,339	2,828,100,620	2,813,449,292
End of service benefits	15	8,126,592	7,728,097	5,902,853
Total liabilities		2,904,471,321	2,861,685,782	2,842,742,740
Equity				
Share capital	16	1,000,000,000	1,000,000,000	1,000,000,000
Statutory reserve	17	93,384,700	88,109,628	65,592,570
General reserve	17	--	--	58,098,064
Actuarial gains on end of service benefits	17	472,703	--	--
Retained earnings		355,799,686	313,681,621	289,445,941
Total equity		1,449,657,089	1,401,791,249	1,413,136,575
Total liabilities and equity		4,354,128,410	4,263,477,031	4,255,879,315

The accompanying notes from (1) to (26) 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-month and nine-month periods ended 30 September 2018
(Amounts in Saudi Riyals)

	<i>Note</i>	For three months ended September 30		For nine months ended September 30	
		2018 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2017 (Unaudited)
Lease finance income		78,682,435	69,673,009	225,008,133	202,850,326
Application and evaluation fee income		836,635	994,070	2,080,361	2,891,841
Service fees, net	<i>18</i>	2,503,530	2,856,916	7,740,683	8,857,390
Other income		--	684,029	238,472	1,035,358
Total operating income		82,022,600	74,208,024	235,067,649	215,634,915
(Provision for) reversal of expected credit losses	<i>5, 9</i>	(11,765,218)	(680,189)	(30,502,973)	925,036
Selling and marketing expenses	<i>19</i>	(5,898,954)	(6,266,158)	(17,653,357)	(18,036,319)
General and administrative expenses	<i>20</i>	(12,880,880)	(11,626,247)	(37,816,978)	(34,105,408)
Financing charges	<i>14</i>	(34,215,842)	(29,429,468)	(96,343,624)	(89,510,381)
Net income for the period		17,261,706	26,205,962	52,750,717	74,907,843

The accompanying notes from (1) to (26) 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-month and nine-month periods ended 30 September 2018
(Amounts in Saudi Riyals)

	For three months ended September 30		For nine months ended September 30		
	<i>Note</i>	2018 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2017 (Unaudited)
Net income for the period		17,261,706	26,205,962	52,750,717	74,907,843
Other comprehensive income					
<i>Item that cannot be reclassified to statement of income</i>					
Actuarial gains on end of service benefits	15	250,993	--	472,703	--
Total comprehensive income for the period		17,512,699	26,205,962	53,223,420	74,907,843

The accompanying notes from (1) to (26) 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-month period ended 30 September 2018
(Amounts in Saudi Riyals)

		For the Nine-month period ended 30 September 2018 (Unaudited)					
	<i>Notes</i>	Share capital	Statutory reserve	General reserve	Actuarial gains on end of service benefits	Retained earnings	Total equity
Balance at beginning of the period		1,000,000,000	88,109,628	40,604,666	--	307,509,579	1,436,223,873
Impact of adopting new standard (IFRS 9) at 1 January 2018	<i>3a</i>	--	--	--	--	(32,599,220)	(32,599,220)
Reclassification of general reserve to retained earnings	<i>3iii, 17</i>	--	--	(40,604,666)	--	40,604,666	--
Prior period adjustment – IAS 19	<i>15</i>	--	--	--	--	(1,833,404)	(1,833,404)
Restated balance at 1 January 2018		1,000,000,000	88,109,628	--	--	313,681,621	1,401,791,249
Net income for the period		--	--	--	--	52,750,717	52,750,717
Actuarial gains for end of service benefits	<i>15</i>	--	--	--	472,703	--	472,703
Total comprehensive income for the period		--	--	--	472,703	52,750,717	53,223,420
Transfer to statutory reserve	<i>17</i>	--	5,275,072	--	--	(5,275,072)	--
Zakat and income tax	<i>13</i>	--	--	--	--	(5,357,580)	(5,357,580)
Balance at end of the period		1,000,000,000	93,384,700	--	472,703	355,799,686	1,449,657,089

		For the Nine-month period ended 30 September 2017 (Unaudited)				
		Share capital	Statutory reserve	General reserve	Retained earnings	Total equity
Balance at beginning of the period		800,000,000	58,101,786	50,607,280	434,145,225	1,342,854,291
Capital increase		200,000,000	--	--	(200,000,000)	--
Total comprehensive income for the period		--	--	--	74,907,843	74,907,843
Transfer to reserves		--	7,490,784	7,490,784	(14,981,568)	--
Zakat and income tax		--	--	--	(4,625,559)	(4,625,559)
Balance at end of the period		1,000,000,000	65,592,570	58,098,064	289,445,941	1,413,136,575

The accompanying notes from (1) to (26) 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-month period ended 30 September 2018
(Amounts in Saudi Riyals)

	<i>Notes</i>	2018 (Unaudited)	2017 (Unaudited)
OPERATING ACTIVITIES			
Net income for the period		52,750,717	74,907,843
<i>Adjustments to reconcile net income to net cash generated from / (used in) operating activities:</i>			
Charge for (reversal of) credit losses	20	30,502,973	(844,115)
Amortisation of deferred origination fees		2,795,062	3,051,390
Depreciation of property and equipment		823,741	1,103,804
Amortization of intangible assets		1,244,688	1,144,845
Provision for end of service benefits	15	1,228,523	964,281
<i>Net (increase) / decrease in operating assets:</i>			
Prepaid expenses and other assets, net		(4,007,928)	(8,069,501)
Due from related parties		101,380	103,885
Advances to property owners		9,489,000	(2,107,000)
Investments in finance lease		(27,376,714)	(115,686,914)
Deferred origination fees paid		(854,535)	(2,064,584)
<i>Net increase / (decrease) in operating liabilities:</i>			
Accounts payable		13,617,423	(120,613)
Accrued expenses and other liabilities	12	1,421,396	2,219,504
Advance lease rentals		(4,364,512)	(5,543,484)
Net cash from operations		77,371,216	(50,940,659)
Zakat and income tax paid	13	(6,749,562)	(6,442,717)
End of service benefits paid	15	(357,326)	(10,677)
Net cash generated from / (used in) operating activities		70,264,328	(67,394,053)
INVESTING ACTIVITIES			
Purchase of property and equipment		(580,891)	(462,485)
Purchase of intangible assets		(193,896)	(479,310)
Net cash used in investing activities		(774,787)	(941,795)
FINANCING ACTIVITIES			
Additions in Tawarruq financing facilities		128,769,995	304,317,609
Repayment of Tawarruq financing facilities		(95,665,277)	(209,971,014)
Net cash generated from financing activities		33,104,718	94,346,595
Net increase in cash and cash equivalents		102,594,259	36,010,747
Cash and cash equivalents at beginning of the period		25,086,478	34,729,558
Cash and cash equivalents at end of the period		127,680,737	70,740,305
Lease finance income received		215,424,202	217,793,038
Financing charges paid		94,795,828	88,347,636
Non-cash transactions			
Capital work in progress transferred to intangible assets and property and equipment		326,790	832,738
Investments in finance lease transferred to other real estate		1,750,000	--

The accompanying notes from (1) to (26) 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 (UNAUDITED)
For the nine-month period ended 30 September 2018
(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 commercial registration No. 1010241934 dated 22 Dhul Al Hijjah 1428H (corresponding to 1 January 2008). The Company operates under Saudi Arabian General Investment Authority (SAGIA) license No: 102030072425-01 dated 23 Rajab 1430H (corresponding to 16 July 2009), also the Company is regulated and licensed by Saudi Arabian Monetary Authority's (SAMA) license No: 14 / A SH /201403 dated 27 Rabi Al-Thani 1435H (corresponding to 27 Feb 2014). The address of the Company is as follows:

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

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

2. BASIS OF PREPARATION

a) *Statement of compliance*

These interim condensed financial statements ("financial statements") for the nine-month period ended 30 September 2018 have been prepared in accordance with the International Accounting Standard 34: 'Interim Financial Reporting' as modified by SAMA for the accounting of zakat and income tax', which requires adoption of all IFRSs as issued by the International Accounting Standards Board ("IASB") except for the application of International Accounting Standard (IAS) 12 - "Income Taxes" and IFRIC 21 - "Levies" so far as these relate to zakat and income tax. As per SAMA Circular no. 381000074519 dated April 11, 2017 and subsequent amendments through certain clarifications relating to the accounting for zakat and income tax ("SAMA Circular"), zakat and income tax are to be accrued on a quarterly basis through shareholders equity under retained earnings.

These 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 2017. The Company has adopted IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers from 1 January 2018 and accounting policies for these new standards are disclosed in the Note 3. Significant judgments and estimates relating to provision for credit losses are disclosed in the financial risk management Note 21 considering IFRS 9 first time adoption.

b) *Basis of measurement*

These financial statements are prepared under the historical cost convention modified to include the measurement at fair value of investments at FVOCI.

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.

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
For the nine-month period ended 30 September 2018
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3. IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS

Effective 1 January 2018, the Company adopted IFRS 15 - Revenue from Contracts with Customers and IFRS 9 - Financial Instruments. Accounting policies for these new standards are disclosed in Note 3 of these financial statements. Significant judgments and estimates relating to IFRS 9 adoption are disclosed in Notes 3 and 20 of these financial statements.

The Company has used modified retrospective approach while applying these standards and accordingly the adjustment has been made to the opening balance of retained earnings as at 1 January 2018 and the comparatives have not been restated. Also the accounting policies used are different for the current and previous accounting periods as mentioned in Note 4. The impact of the adoption of these standards is explained below:

3.1 IFRS 15 Revenue from Contracts with Customers

The Company adopted IFRS 15 'Revenue from Contracts with Customers' resulting in a change in the revenue recognition policy of the Company in relation to its contracts with customers. IFRS 15 was issued in May 2014 and is effective for annual periods commencing on or after 1 January 2018. IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue guidance, which is found currently across several standards and interpretations within IFRS. It established a new five-step model that will apply to revenue arising from contracts with customers.

While IFRS 15 contains more structured guidance than IAS 18, the outcomes for revenue recognition are very similar to current practice of allocating income over the period of the service rendered and therefore IFRS 15 does not have a material impact on the Company.

3.2 IFRS 9: Financial Instruments

The Company adopted IFRS 9 - Financial Instruments issued in July 2014 with a date of initial application of 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

The key changes to the Company's accounting policies resulting from its adoption of IFRS 9 are summarised below:

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost ("AC"), fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). This classification is generally based, except equity instruments and derivatives, on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are presented as follows:

- The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in Other Comprehensive Income ("OCI"); and
- The remaining amount of change in the fair value is presented in profit or loss.

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3. IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS (CONTINUED)

3.2 IFRS9: Financial Instruments (continued)

For an explanation of how the Company classifies financial assets under IFRS 9, see respective section of significant accounting policies below.

IFRS 9 Classification & Measurement requirements do not apply to the Company as leases continue to be subjected to the classification requirements as per IAS 17–*Leases*. However, lease receivables (investments finance lease) recognised by the Company are subject to the de-recognition and impairment requirements of IFRS 9.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model ("ECL"). IFRS 9 requires the Company to record an allowance for ECLs for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts (if any).

The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Company applies the provision requirements of IFRS 9, see respective section of significant accounting policies.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- Comparative periods have not been restated. A difference in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings as at 1 January 2018.

Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
 - The determination of the business model within which a financial asset is held.
 - The designation and revocation of previous designated financial assets and financial liabilities as measured at FVTPL.
 - The designation of certain investments in equity instruments not held for trading as FVOCI. For financial liabilities designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.

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3. IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS (CONTINUED)

a) Financial assets and financial liabilities

i) Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Company's financial assets and financial liabilities as at 1 January 2018.

	Original classification under <u>IAS 39</u>	New classification under <u>IFRS 9</u>	Original carrying value under <u>IAS 39</u>	New carrying value under <u>IFRS 9</u>
<u>FINANCIAL ASSETS</u>				
Cash and cash equivalents	Loans and receivables	Amortised Cost	25,086,478	25,086,478
Due from related parties	Loans and receivables	Amortised Cost	1,031,358	1,031,358
Investment	Available for sale ("AFS")	FVOCI	892,850	892,850
Investments in finance lease, net*	N/A	N/A	4,181,732,268	4,158,225,388
Insurance claims receivable on non-performing decess-case leases, net **	Loans and receivables	Amortised Cost	20,244,105	11,151,765
Total assets			<u>4,228,987,059</u>	<u>4,196,387,839</u>
<u>FINANCIAL LIABILITIES</u>				
Accounts payable	Amortised Cost	Amortised Cost	1,755,816	1,755,816
Accrued expenses	Amortised Cost	Amortised Cost	5,841,429	5,841,429
Tawaruq financing facilities	Amortised Cost	Amortised Cost	2,828,100,620	2,828,100,620
Total liabilities			<u>2,835,697,865</u>	<u>2,835,697,865</u>

*Investments in finance lease continue to be subject to the classification and measurement requirements as per IAS 17 – Leases. The new carrying value includes the re-measurement impact upon adoption of IFRS 9.

**The new carrying value includes the re-measurement impact upon adoption of IFRS 9.

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3. IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS (CONTINUED)

ii) Reconciliation of carrying amounts under IAS 39 to carrying amounts under IFRS 9 at the adoption of IFRS 9.

The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018:

	IAS 39 carrying amount as at 31 December 2017	Re- classification	Re- measurement	IFRS 9 carrying amount as at 1 January 2018
Financial assets				
Investments in finance lease - net	4,181,732,268	--	(23,506,880)	4,158,225,388
Insurance claims receivable on non-performing decess-case leases, net	20,244,105	--	(9,092,340)	11,151,765
Total financial assets	<u>4,201,976,373</u>	<u>--</u>	<u>(32,599,220)</u>	<u>4,169,377,153</u>

There has been no reclassification or re-measurement in case of other than above mentioned financial assets and financial liabilities of the Company upon adoption of IFRS 9 as at 1 January 2018.

iii) Impact of IFRS 9 adoption on retained earnings and other reserves:

	Retained earnings	Other reserves
Closing balance (31 December 2017)	307,509,579	40,604,666
Impact of adopting new standard (IFRS 9) at 1 January 2018:		
- Re-measurement of financial assets	(32,599,220)	--
- Reclassification to retained earnings	40,604,666	(40,604,666)
- Prior period adjustment – IAS 19	(1,833,404)	--
Opening balance (1 January 2018)	<u>313,681,621</u>	<u>--</u>

iv) The following table reconciles the impairment allowance recorded as per the requirements of IAS 39 to that of IFRS 9:

- The closing impairment allowance for financial assets in accordance with IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets as at 31 December 2017; to
- the opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018.

	31 December 2017 (IAS 39)	Re- classificatio n	Re- measurement	1 January 2018 (IFRS 9)
Impairment allowance for credit losses (Investments in finance lease)	12,203,770	--	23,506,880	35,710,650
Impairment allowance for insurance claim receivable on non-performing decess-cas leases	2,108,975	--	9,092,340	11,201,315
Total	<u>14,312,745</u>	<u>--</u>	<u>32,599,220</u>	<u>46,911,965</u>

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
For the nine-month period ended 30 September 2018
(Amounts in Saudi Riyals)

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of these financial statements are consistent with those used in the preparation of the annual financial statements as at and for the year ended 31 December 2017 except for the policies explained below.

Based on the adoption of new standard explained in Note 3, the following accounting policies are applicable effective 1 January 2018 replacing / amending or adding to the corresponding accounting policies set out in annual audited financial statements for the year ended 31 December 2017.

IFRS 9 Classification & Measurement does not apply to the Company as Leases continue to be subjected to the classification requirements as per IAS 17 - Leases, however, lease receivables (investments finance lease) recognised by the Company are subject to the de-recognition and impairment requirements of IFRS 9.

a) Classification of financial assets:

On initial recognition, a financial asset is classified as measured at: amortized cost, FVOCI or FVTPL.

• **Financial assets at amortized cost**

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows;
- and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Equity Instruments: On initial recognition, for an equity investment that is not held for trading, the company may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. Furthermore, such investment will not be subject to the provision requirements of the IFRS 9 rather will be governed by the requirements of IAS 36.

b) Classification of financial liabilities.

The Company classifies its financial liabilities at amortized cost. Amortized cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the EIR.

Before 1 January 2018, all the financial liabilities were initially recognized at fair value less transaction costs. Subsequently financial liabilities were recognized at amortized cost.

c) De-recognition

i. Financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of

- a. the consideration received (including any new asset obtained less any new liability assumed); and
- b. any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss.

In transactions in which the Company neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Company continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

ii. Financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expire.

d) Modification of financial assets and financial liabilities

i. Financial assets

If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is

derecognized with the difference recognized as a de-recognition gain or loss and a new financial asset is recognized at fair value.

If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in de-recognition of the financial asset. In this case, the Company recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

ii. Financial liabilities

The Company derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in profit or loss.

e) Impairment

The Company recognizes provision for ECL on the following financial instruments:

- Investments in finance lease
- Insurance claims receivable on non-performing decrease-case leases

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement of ECL

ECL is a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows:

- If the expected restructuring will not result in de-recognition of the existing asset, and then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset
- If the expected restructuring will result in de-recognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its de-recognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted.
- From the expected date of de-recognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of exposure on terms that the Company would not consider otherwise;

Credit-impaired financial assets

- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or the disappearance of an active market for a security because of financial difficulties.

A lease that has been renegotiated due to deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position for financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets.

Write-off

Investments in finance lease and insurance receivables on non-performing decess-case leases are written off (either partially or in full) when there is no realistic prospect of recovery. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to impairment charge for credit losses.

Collateral valuation

To mitigate its credit risks on financial assets, the Company seeks to use collateral, where possible. The collateral is primarily in the form of real estate. The Company's accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same as it was under IAS 39. Collateral, unless repossessed, is not recorded on the Company's statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a periodic basis.

To the extent possible, the Company uses active market data for valuing financial assets held as collateral. Non-financial collateral, such as real estate, is valued by independent valuers appointed by the Company.

Collateral repossessed

The Company's accounting policy relating to collateral repossessed under IFRS 9 remains the same as it was under IAS 39. The Company policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in line with the Company policy.

f) Income / expense recognition

i. Income and expenses

Income from investments in finance lease contracts and financing charges are recognized in profit or loss using the effective profit method. The 'effective profit rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the amortized cost of the financial instrument.

When calculating the effective profit rate for financial instruments other than credit-impaired assets, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective profit rate is calculated using estimated future cash flows including expected credit losses.

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The calculation of the effective profit rate includes transaction costs and fees and points paid or received that are an integral part of the effective profit rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

ii. Measurement of amortized cost and income

The 'amortized cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective profit method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

In calculating profit, the effective profit rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, profit is calculated by applying the effective profit rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of profit reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, profit is calculated by applying the credit-adjusted effective profit rate to the amortized cost of the asset. The calculation of profit does not revert to a gross basis, even if the credit risk of the asset improves.

g) Critical accounting judgments, estimates and assumptions

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Such judgements, estimates, and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advices and expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and in future periods if the revision affects both current and future periods. Significant areas where management has used estimates, assumption or exercised judgment are as follows:

- Provision for investments in finance lease
- Provision of insurance claims receivable on non-performing decess-case leases
- Provision for zakat and income tax
- End of service benefits

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5. PREPAID EXPENSES AND OTHER ASSETS, NET

Prepaid expenses and other assets comprised of the following:

	30 September	31 December	30
	2018	2017	September
<i>Note</i>	(Unaudited)	<u>(Audited)</u>	<u>(Unaudited)</u>
		<u>(Restated)</u>	
Insurance claims receivable on decess- case leases	26,665,973	22,353,080	22,567,810
Advance tax	2,307,248	3,293,700	2,195,800
Prepaid financing facility fees (GIB)	1,706,250	2,212,500	1,200,000
Prepaid financing facility fees (IFC)	1,801,420	2,036,392	--
Prepaid financing facility interest (IFC)	1,986,247	3,670,881	--
Legal claim	1,018,356	1,018,356	1,018,356
Prepaid Insurance	375,596	--	103,565
Vat receivable	2,606,031	--	--
Prepaid software maintenance	310,862	676,078	330,360
Prepaid rent	742,578	561,985	279,963
Employees' advances and receivables	131,008	96,835	47,926
Others	315,336	39,170	114,296
	39,966,905	35,958,977	27,858,076
Impairment allowance for:			
- Insurance claims receivable on non- performing decess-case leases	<i>3.2(a)i</i> (11,881,938)	(11,201,315)	(1,047,013)
- Legal claim	(1,018,356)	(1,018,356)	(1,018,356)
	27,066,611	23,739,306	25,792,707

All insurance claims receivable on non-performing decess-case leases are in stage 3.

6. ADVANCES TO PROPERTY OWNERS

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

7. RELATED PARTY TRANSACTIONS

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

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

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

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7. RELATED PARTY TRANSACTIONS (CONTINUED)

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

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

	30 September 2018 (Unaudited)	31 December 2017 (Unaudited)	30 September 2017 (Unaudited)
Loan obtained from a shareholder ANB	2,403,119,155	2,359,290,774	2,531,145,542
Loan obtained from a shareholder IFC	187,500,000	187,500,000	--
Takaful protection coverage –ANB metlife	9,411,921	13,479,906	9,370,738
Service fees, net	7,740,683	11,566,637	8,857,390
Prepaid financing facility fees (IFC)	1,801,420	2,036,392	--
Prepaid interest expense IFC	1,986,247	3,670,881	--
Rent charged by an affiliate	941,046	1,882,090	1,411,569
Deferred origination fees paid (Note 10)	1,388,041	2,547,693	2,064,584

- (a) As part of the Asset Sale Agreement and the Board of Directors resolutions, Arab National Bank (ANB) has signed an agreement with the Company whereby the Company is appointed to render administrative services in relation to the sold investments. As per this servicing agreement, SHL share of the sold portfolio revenue during the period ended 30 September 2018 is SR 8.77 million (SR 9.98 million during the period ended 30 September 2017) with related expenses amounting to SR 1.03 million (SR 1.13 million during the period ended 30 September 2017).

Due from related parties, is comprised of the following:

	30 September 2018 (Unaudited)	31 December 2017 (Audited)	30 September 2017 (Unaudited)
Arab National Bank	929,978	1,031,358	1,062,457
	929,978	1,031,358	1,062,457

Compensation of directors and other key management personnel

The Company considers member of the board of directors, chief executive officer, chief operating officer and chief financial officer as key management personnel.

	30 September 2018 (Unaudited)	31 December 2017 (Audited)	30 September 2017 (Unaudited)
Short-term benefits	3,129,680	4,012,501	2,859,396
Long-term benefits	158,098	202,763	152,072
	3,287,778	4,215,264	3,011,468

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8. INVESTMENT

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

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

This Company has been set up by SAMA as a means to further regulate the market and facilitate transfer of leases between suppliers of finance and counterparties. The main activity of SCRFLC is to register finance lease contracts across Saudi Arabia and do any future amendments to such contracts / transfer of such contracts, within the companies investing in SCRFLC. SCRFLC has 700,000 shares of SR 10 each. These 700,000 shares have been divided between finance lease companies registered and operating in Saudi Arabia. On 17 December 2017, Saudi Home Loans Company purchased 89,285 shares at SR 10 each, amounting to SR 892,850. Operations of SCRFLC have not been started yet.

As at 1 January 2018, with the implementation of IFRS 9, the Company has elected to classify this equity investment as FVOCI. As at the date of these financial statements, the carrying value of this investment is not materially different to its fair value.

9. INVESTMENTS IN FINANCE LEASE - NET

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

	30 September 2018 <u>(Unaudited)</u>	31 December 2017 <u>(Audited)</u> <u>(Restated)</u>	30 September 2017 <u>(Unaudited)</u>
Minimum lease payments			
Performing leases	6,428,051,247	6,363,996,963	6,276,655,405
Non-performing leases	351,841,628	192,153,639	166,515,723
Investments in finance lease - gross	6,779,892,875	6,556,150,602	6,443,171,128
Less: Unearned finance income	(2,560,330,123)	(2,362,214,564)	(2,326,098,588)
Investments in finance lease before impairment	4,219,562,752	4,193,936,038	4,117,072,540
Less: Allowance for credit losses	(65,533,000)	(35,710,650)	(10,879,639)
Investments in finance lease - net	4,154,029,752	4,158,225,388	4,106,192,901
Less: Current portion	(196,973,592)	(243,341,195)	(242,651,960)
Less: Accrued finance lease receivable	(38,755,563)	(30,282,923)	(27,342,174)
Non-current portion	3,918,300,597	3,884,601,270	3,836,198,767

Investments represent net investment in finance lease. Total number of outstanding lease agreements as at 30 September 2018 is 6,486 (31 December 2017:6,298).

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9. 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.

9.1 The movement in the allowance for credit losses for investments as at 30 September 2018 is shown below:

<u>2018</u>	<u>Total</u>
Closing loss allowance as at 31 December 2017 (Calculated under IAS 39)	12,203,770
Amounts restated through opening retained earnings	<u>23,506,880</u>
Opening loss allowance as at 1 January 2018 (Calculated under IFRS 9)	35,710,650
Charge for the period, net	<u>29,822,350</u>
Balance at the end of the period	<u>65,533,000</u>

9.2 The credit quality of investments in finance lease as at 30 September 2018 is as follows:

	12 month ECL	Life time ECL not credit impaired	Life time ECL credit impaired	<u>Total</u>
Allowance for credit losses	<u>1,539,406</u>	<u>9,533,191</u>	<u>54,460,403</u>	<u>65,533,000</u>

9.3 Maturity profile of the lease payments is as follows:

<u>Year</u>	<u>30 September 2018</u>			<u>31 December 2017</u>
	<u>Minimum lease payments</u>	<u>Unearned finance income</u>	<u>Investments in finance lease</u>	<u>Investments in finance lease</u>
Within one year	611,404,350	310,142,195	301,262,155	285,827,889
Year two	562,022,855	290,790,373	271,232,482	265,602,523
Year three	548,164,862	270,793,723	277,371,139	270,249,315
Year four	533,256,978	250,168,187	283,088,791	274,317,063
Year five and later	4,525,043,830	1,438,435,645	3,086,608,185	3,097,939,248
	<u>6,779,892,875</u>	<u>2,560,330,123</u>	<u>4,219,562,752</u>	<u>4,193,936,038</u>

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9. 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 2018, the carrying amount of gross non-performing leases amounted to SR 197.9 million (2017: SR 93.79 million) and the fair value of identifiable real estate collateral held against them amount to SR 266.83 million (2017: SR 129.05 million). The Company has a policy to value every year, all real estate properties leased out, by involving approved appraisers.

10. DEFERRED ORIGINATION FEES

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

11. ACCOUNTS PAYABLE

As at 30 September 2018, the Company's payable includes an amount due to the Ministry of Housing (MOH) amounted to SAR 13.77 million (31 December 2017: nil).

On 8 April 2018, the Company has entered into an agreement with the MOH as part of the government housing projects. As part of the agreement, the Company will only process the payment of the purchase price of the properties once the title deed of the properties were successfully transferred in the name of the Company.

12. ACCRUED EXPENSES AND OTHER LIABILITIES

	30 September 2018 <u>(Unaudited)</u>	31 December 2017 <u>(Audited)</u>	30 September 2017 <u>(Unaudited)</u>
Employees' related expenses	5,189,961	4,191,978	5,397,142
Accrued Insurance	1,129,200	--	1,243,604
Accrued rent	--	--	1,411,569
Accrued legal and consultation fees	283,905	595,000	535,059
Provision for maintenance on finance lease contracts	444,800	444,800	346,327
Accrued brokerage fees	84,330	266,637	83,300
Others	130,629	343,014	118,156
Total	<u>7,262,825</u>	<u>5,841,429</u>	<u>9,135,157</u>

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13. PROVISION FOR ZAKAT AND INCOME TAX

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

	30 September 2018 (Unaudited)	31 December 2017 (Audited)	30 September 2017 (Unaudited)
Balance, beginning of the period / year	6,655,591	6,441,752	6,441,752
Provision for the period / year	5,357,580	6,656,556	4,625,559
Payment during the period / year	<u>(6,749,562)</u>	<u>(6,442,717)</u>	<u>(6,442,717)</u>
Balance, end of the period / year	<u>5,263,609</u>	<u>6,655,591</u>	<u>4,624,594</u>

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

The Company has filed its zakat and income tax returns for the years from 2008 up to 2016. During 2014 the Company received the final assessments from GAZT in respect of the years from 2008 to 2011 requesting an additional zakat liability amounting to SR 45,638,701. However, the Company has filed an appeal against this assessment with the Preliminary Zakat and Tax Objection Committee (PZTOC). Such liability is primarily due to disallowing the deduction of the investments in finance leases from the zakat base of the Company. Based on the assessment of the Company and its independent zakat and income tax advisor, the management of the Company does not see the need to record any additional provision.

In November 2017, the Company received another assessment in respect of the years 2012 to 2015 requesting an additional zakat liability of SR 80,590,614. The Company has initiated the appeal process which is in the early stages.

As at 30 September 2018, there has been no significant updates on the status of the Company's zakat and income tax assessments from the status disclosed in the annual financial statements of the Company for the year ended 31 December 2017.

14. TAWARRUQ FINANCING FACILITIES

	30 September 2018 (Unaudited)	31 December 2017 (Audited)	30 September 2017 (Unaudited)
Current portion of facilities	827,047,400	298,296,606	171,511,113
Non-current portion of facilities	2,030,387,944	2,526,135,267	2,639,359,508
Total excluding financial charges	<u>2,857,435,344</u>	<u>2,824,431,873</u>	<u>2,810,870,621</u>
Accrued Tawarruq financing charges	3,769,995	3,668,747	2,578,671
Total including financial charges	<u>2,861,205,339</u>	<u>2,828,100,620</u>	<u>2,813,449,292</u>

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14. TAWARRUQ FINANCING FACILITIES (CONTINUED)

This item represents the Tawarruq financing facilities from Arab National Bank (shareholder) (“ANB”), International Finance Corporation (Shareholder) (“IFC”) and Gulf International Bank (“GIB”) to finance the investments in finance lease. Arab National Bank facilities are secured by promissory notes, transfer of certain property title deeds ownership and assignment of contracts and proceeds from investments in finance lease covering 105% of the outstanding facilities amounting to SR 2,403,119,155 in favour of the bank. These facilities bear finance charges at 6months SIBOR plus annual profit margin of 2%. Starting from 2012 20% of these facilities were repaid in eight to ten equal semi-annual instalments, whereas the remaining 80% will be due and paid at facility maturity date.

The Company has a Murabaha facility with Gulf International Bank dated September 2015, for a period of 5 years; 20% of which will be repaid in 10 equal semi-annual payments and the remaining 80% will be repaid as a lump sum on the final maturity date. The facility is secured through the issuance of promissory notes and against contract receivables covering 120% amounting to SR 324,703,420 of the finance amount. The facility bears a finance charge of 6 months SIBOR plus a profit margin of 1.95%.

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

Loan from ANB is SR 2,403,119,155 (2017: SR 2,531,145,542), GIB is SR 270,586,184 (2017:SR 282,303,750) and from IFC is SR 187,500,000.

The finance charge related to these facilities, expensed during 2018 is as follows:

	30 September 2018 (Unaudited)	31 December 2017 (Audited)	30 September 2017 (Unaudited)
ANB Tawarruq Facility	80,467,463	106,562,270	80,316,671
GIB Tawarruq Facility	9,205,951	12,206,599	9,193,710
IFC Tawarruq Facility	6,670,210	569,599	--
Total Finance Charge	96,343,624	119,338,468	89,510,381

15. END OF SERVICES BENEFITS

The Company operates an ‘End of service benefit plan’ for its staffs based on prevailing Saudi Labor Laws. As at 30 September 2018, actuarial valuation was carried out by the Company which estimated the plan liability to be SR 8.13 million. The actuarial valuation performed required cumulative adjustment to prior period plan liability as shown in the table below:

	Interim statement of financial position as at 30 September 2018 (Unaudited)		
	31 December 2017 (Audited)	Prior period adjustment	31December 2017 (Restated)
End of service benefits	5,894,693	1,833,404	7,728,097
Total	5,894,693	1,833,404	7,728,097

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15. END OF SERVICES BENEFITS (CONTINUED)

Defined Benefit Cost

	<u>30</u> <u>September</u> <u>2018</u>	<u>31 December</u> <u>2017</u>
Current service cost	1,034,467	1,295,836
Interest cost on defined benefit obligation	194,056	246,420
Actuarial (gain) / loss on obligation recognised in OCI during the year	(472,703)	774
Total defined benefit cost	<u>755,820</u>	<u>1,543,030</u>

Movements in the present value of defined benefit obligation

	<u>30 September</u> <u>2018</u>	<u>31 December</u> <u>2017</u>
Defined benefit obligation at the beginning of the year	<u>7,728,097</u>	6,445,150
Current service cost	1,034,468	1,295,836
Interest cost on defined benefit obligation	194,056	246,420
Benefits paid to outgoing member	(357,326)	(260,083)
Actuarial (gain) loss on obligation	(472,703)	774
Defined benefit obligation at the end of the period / year	<u>8,126,592</u>	<u>7,728,097</u>

Principal actuarial assumptions (in respect of the employee benefit scheme)

	<u>30</u> <u>September</u> <u>2018</u>	<u>31 December</u> <u>2017</u>
Discount rate	4.40%	3.15%
Expected rate of salary increase	5.0%	3.6%
Normal retirement age	60	60

Assumptions regarding future mortality are set based on actuarial advice in accordance with the published statistics and experience in the region.

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15. END OF SERVICES BENEFITS (CONTINUED)

Maturity profile of the defined benefit obligation:

	30 September <u>2018</u>	31 December <u>2017</u>
Weighted average duration of the defined benefit obligation	10.15	10.51
Distribution of timing of benefit payments		
Year 1	447,597	399,875
Year 2	514,843	464,140
Year 3	1,015,052	531,198
Year 4	661,617	1,048,088
Year 5	709,853	666,520
Year 6-10	7,877,429	7,063,016

Sensitivity analysis on significant actuarial assumptions:

	<u>30 September</u> <u>2018</u>	<u>31 December</u> <u>2017</u>
Discount Rate +0.5%	(413,207)	(406,903)
Discount Rate -0.5%	413,207	406,903
Long Term Salary Increase +0.5%	289,435	256,487
Long Term Salary Increase -0.5%	(289,435)	(256,487)

16. SHARE CAPITAL

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

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

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

	<u>No. of shares</u>	<u>Share capital</u>
Arab National Bank	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>

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17. STATUTORY AND GENERAL RESERVES

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

On 27 Rabi II 1438H, corresponding to 25 January 2017, SAMA issued circular number 381000046342, whereby financing companies are required to maintain a minimum general provision at 1% of their outstanding investments in finance lease exposure after deducting the non-performing portfolio. As at 31 December 2017, the provision for credit losses under IAS 39 (SR 12.20 million) was much lower than the 1% requirement of SAMA. Therefore, to comply with this requirement of SAMA, the Company set aside the required amount as a general reserve from equity which amounted to SR 40.60 million as at 31 December 2017.

With the implementation of IFRS 9 from 1 January 2018, provision for credit losses have increased to SR 49.74 million as at 31 March 2018. Therefore, as at 31 March 2018, management decided to reclassify this excess provision of SR 40.60 million from general reserve back to retained earnings as shown in the interim statement of changes in equity.

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. This comprised of three transactions executed on March 27, 2014, May 22, 2014, and July 20, 2014 ("sold portfolio") respectively.

As part of this Asset Sale Agreement, ANB and the Company also signed an agreement in relation to this sold portfolio to be recognised, based on an agreed profit sharing schedule built upon monthly instalments from this sold portfolio. Fees earned from sold portfolio during the period ended 30 September 2018 is SR 7.74 million (SR 8.85 million during the period ended 30 September 2017).

19. SELLING AND MARKETING EXPENSES

	For three months ended		For nine months ended	
	September 30		September 30	
	2018	2017	2018	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Insurance expenses	3,420,084	3,432,898	10,349,719	10,160,259
Origination expenses	926,581	950,118	2,795,062	3,051,390
Sales, collection & title transfer commission	527,632	731,376	1,888,475	2,182,436
Evaluation fees	555,950	409,600	1,546,050	1,075,200
Marketing expenses	418,307	718,251	919,594	1,459,389
Others	50,400	23,915	154,457	107,645
	5,898,954	6,266,158	17,653,357	18,036,319

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20. GENERAL AND ADMINISTRATIVE EXPENSES

	For three months ended		For nine months ended	
	September 30		September 30	
	2018	2017	2018	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Employees' salaries and other benefits	9,601,690	7,956,617	27,418,367	23,876,386
Consultation fees	561,529	831,414	2,325,323	2,300,461
Depreciation and amortisation	692,228	756,720	2,068,429	2,248,649
Rent expense and building maintenance	680,661	688,499	2,073,407	2,075,101
Repairs and maintenance	407,887	453,001	1,148,831	1,414,745
Telecommunication expenses	207,525	165,000	585,525	497,024
Recruitment-related expenses	68,884	111,703	278,684	165,013
Travel expenses	50,146	65,053	469,725	267,392
Others	610,330	598,240	1,448,687	1,260,637
	12,880,880	11,626,247	37,816,978	34,105,408

21. FINANCIAL RISK MANAGEMENT

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles. The Board has appointed the Risk Committee, which has the responsibility to monitor the overall risk process within the Company.

The Risk Management Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits.

The Risk Management Committee is responsible for managing risk decisions and monitoring on risk levels and reports on a quarterly basis to the Board Risk Management Committee.

The Company manages exposure to credit risk, which 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. Credit exposures arise principally in investments in finance lease. The Company assesses the probability of default of counterparties using internal rating tools.

The Company attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Company's risk management policies are designed to identify, to set appropriate risk limits, and to monitor the risks and adherence to limits. Actual exposures against limits are monitored on regularly basis.

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21. FINANCIAL RISK MANAGEMENT (CONTINUED)

Concentrations of credit risk arise when a number of counterparties 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 similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographical location.

The Company seeks to manage its credit risk exposure through diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or business.

Management monitors the market value of collateral obtained during its review of the adequacy of the impairment allowance for credit losses. The Company regularly reviews its risk management policies and systems to reflect changes in markets products and emerging best practice.

i. Credit quality analysis

- a) The following table sets out information about the credit quality of financial assets measured at amortized cost as at 30 September 2018. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

Investments in finance lease	30 September 2018			
	<u>12 month ECL</u>	<u>Life time ECL not credit impaired</u>	<u>Lifetime ECL credit impaired</u>	<u>Total</u>
Gross carrying amounts	3,447,905,918	500,615,123	271,041,711	4,219,562,752
ECL	(1,539,406)	(9,533,191)	(54,460,403)	(65,533,000)
Net carrying amount	3,446,366,512	491,081,932	216,581,308	4,154,029,752

b) Amounts arising from ECL – Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and expert credit assessment.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

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21. FINANCIAL RISK MANAGEMENT (CONTINUED)

ii. Generating the term structure of PD

Days past due is the primary input into the determination of the PD term structure. The Company collects performance and default information about its credit risk exposures, analyses the relationships between its historical default rates and macro-economic factors. The key macro-economic indicator is Gross National Saving apart from this relationship of multiple variables were tested and used in the development of Macroeconomic overlaid PD term structures.

ii) Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Company's quantitative modelling.

Using its expert credit judgment and, where possible, relevant historical experience, the Company may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Company considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

The Company monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

iii) Modified financial assets

The contractual terms of a debt instrument may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing debt instrument whose terms have been modified may be derecognized and the renegotiated debt instrument recognized as a new debt instrument at fair value in accordance with the accounting policy.

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21. FINANCIAL RISK MANAGEMENT (CONTINUED)

When the terms of a financial asset are modified and the modification does not result in de-recognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- The risk of default at the reporting date (based on modified contractual terms); and
- The risk of default occurring at initial recognition (based on original, unmodified contractual terms)

If the modification results in derecognition, the determination of whether the asset's credit risk has increased significantly reflects a comparison of the following:

- risk of default at the reporting date (based on modified contractual terms); and
- the risk of default based on the modified terms.

The modified terms usually include extending the maturity, changing the timing of profit payments and amending the terms of debt instrument covenants.

For financial assets, which are modified, the estimate of Probability of Default (PD) reflects whether the modification has improved or restored the Company's ability to collect profit and principal. As part of this process, the Company evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, a customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired / default or the risk of default is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

iv) Definition of 'Default'

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to Company in full; or
- the borrower is past due more than 90 days on any material credit obligation to Company.

In assessing whether a borrower is in default the Company considers indicators that are:

- qualitative- e.g. breaches of covenant;
- quantitative- e.g. overdue status and non-payment on another obligation of the same issuer to Company;

The definition of default largely aligns with that applied by Company for regulatory capital purposes.

v) Incorporation of forward looking information

The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The expected credit losses have been determined using three different, forward-looking scenarios – Baseline, Upturn and Downturn. The ECL for each of the scenario is calculated and weighted by the likelihood of that scenario is occurring.

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21. FINANCIAL RISK MANAGEMENT (CONTINUED)

The base case represents a most-likely outcome and is aligned with information used by the Company for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Company carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Company has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The economic scenarios used as at 30 September 2018 included the following ranges of key indicators, viz. gross national savings at three quarter lag.

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 10 to 15 years.

v) Measurement of ECL

The key inputs into the measurement of ECL are the following risk estimates:

- i. probability of default (PD);
- ii. loss given default (LGD); and
- iii. exposure at default (EAD).

PD estimates are estimates at a certain date, which are calculated, based on statistical rating models, and assessed using rating tools tailored for the corporate and high network individuals' portfolio. These rating models are based on both quantitative and qualitative factors. If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD. Further the PD term structure is estimated considering the contractual maturities of exposures

LGD is the magnitude of the likely loss if there is a default. Company estimates LGD based on the history of recovery rates of claims against defaulted counterparties. LGD estimation considers the structure, any sale of collateral, and recovery costs of any collateral that is integral to the financial asset. Due to sparse historical defaults, the quantitative LGD estimates are adjusted for qualitative overlays based on Company's empirical loss experience.

EAD represents the expected exposure in the event of a default. Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, Company measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk, even if, for risk management purposes, Company considers a longer period. The maximum contractual period extends to the date at which Company has the right to require repayment of an advance or terminate a loan commitment or guarantee.

For portfolios in respect of which Company has limited historical data or depending on the materiality of portfolio, qualitative adjustment is used to supplement any internally available data.

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21. FINANCIAL RISK MANAGEMENT (CONTINUED)

c. Loss allowance

The following table shows reconciliations from the opening to the closing balance of the loss allowance at an overall level.

Loss Allowance	12 Month ECL	Lifetime ECL		Total
		Not credit impaired	Credit impaired	
Opening balance at 1 January	1,585,378	10,343,110	23,782,162	35,710,650
Transfer to 12 Month ECL	31,335	(31,249)	(86)	--
Transfer to Lifetime ECL (not credit impaired)	(106,863)	186,552	(79,689)	--
Transfer to Lifetime ECL (credit impaired)	(26,576)	(2,386,772)	2,413,348	--
Net change for the period	56,132	1,421,550	28,344,668	29,822,350
Closing balance as of 30 September	1,539,406	9,533,191	54,460,403	65,533,000

d. Collateral

Company in the ordinary course of lending activities hold collaterals as security to mitigate credit risk in the investments in finance lease portfolio. These collaterals mostly include financial guarantees and real estate. The collaterals are managed against relevant exposures at their net realizable values. For financial assets that are credit impaired at the reporting period, quantitative information about the collateral held as security is needed to the extent that such collateral mitigates credit risk

22. 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 the asset or liability
- The principal or the most advantageous market is accessible by the Company.

Financial instruments comprise of Ijarah receivables.

Fair value hierarchy

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

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

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

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

All financial assets (including lease receivables) and financial liabilities are measured at amortized cost. The carrying amounts of all financial assets and financial liabilities measured at amortized cost approximate their fair values except for net investments in finance leases.

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22. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

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

		30 September 2018			
	Carrying Value	Level 1	Level 2	Level 3	Total
Net investments in finance leases	4,154,029,752	--	--	4,148,869,544	4,148,869,544
Investment	892,850	--	--	892,850	892,850
Total		--	--	4,149,762,394	4,149,762,394

		31 December 2017 (Audited) (Restated)			
	Carrying Value	Level 1	Level 2	Level 3	Total
Net investments in finance leases	4,158,225,388	--	--	4,153,628,928	4,153,628,928
Investment	892,850	--	--	892,850	892,850
Total		--	--	4,154,521,778	4,154,521,778

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

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

23. 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 2018	31 December 2017
Capital ratio	Total capital ratio % 23.12%	Total capital ratio % 23.83%

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

The Company also raised Tawarruq financing to fund investments in finance lease and to help achieve the differential between cost of funds and financing income from net investment in finance lease

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24. COMMITMENT AND CONTINGENCIES

The Company has contingencies related to outstanding letter of guarantee issued by the Company in its normal course of business amounting to SR45,638,701 (2017: SR 45,638,701) issued in favour of GAZT related to the Zakat and tax assessments raised for previous years from 2008 to 2011. 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.

25. SUBSEQUENT EVENTS

There were no significant events after the reporting period that require disclosure or adjustment in these interim condensed financial statements.

26. BOARD OF DIRECTORS' APPROVAL

These financial statements were approved by the Board of Directors on 16 Safar 1440H corresponding to 25 October 2018.