

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
INTERIM CONDENSED FINANCIAL STATEMENTS
(Unaudited)
For the three months period ended 31 March 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 three months period ended 31 March 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 31 March 2020 interim condensed financial statements of **Saudi Home Loans Company** ("the Company"), which comprises:

- the interim condensed statement of financial position as at 31 March 2020;
- the interim condensed statement of income for the three months period ended 31 March 2020;
- the interim condensed statement of comprehensive income for the three months period ended 31 March 2020;
- the interim condensed statement of changes in equity for the three months period ended 31 March 2020;
- the interim condensed statement of cash flows for the three months period ended 31 March 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 31 March 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

21 Ramadan 1441H
Corresponding to: 14 May 2020



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

	Note	31 March 2020 (Unaudited)	31 December 2019 (Audited)	31 March 2019 (Restated) / (Unaudited)
<u>ASSETS</u>				
Cash and cash equivalents		103,501,587	54,199,589	110,174,373
Prepaid expenses and other assets, net	4	66,434,562	63,774,329	37,079,155
Advances to property owners	5	6,091,500	2,392,568	17,425,500
Due from related parties	6	1,475,493	765,379	866,047
Investment	7	892,850	892,850	892,850
Investments in finance lease, net	8	4,275,302,105	4,238,416,012	4,174,128,506
Deferred origination fees	9	24,930,402	25,791,599	28,758,193
Other real estate		8,462,071	6,963,475	5,280,771
Right-of-use asset		5,643,275	6,309,047	7,750,594
Property and equipment, net		4,879,086	4,767,583	4,302,793
Deferred tax assets	13	4,755,286	4,563,723	3,868,398
Intangible assets, net		2,686,597	3,157,336	3,124,800
Total assets		4,505,054,814	4,411,993,490	4,393,651,980
<u>LIABILITIES AND EQUITY</u>				
Liabilities				
Accounts payable	10	58,548,317	50,593,077	36,411,743
Accrued expenses and other liabilities	11	9,320,932	8,607,271	7,669,463
Advance lease rentals		4,790,378	7,496,185	9,078,408
Lease liability		4,054,399	5,929,977	6,136,468
Provision for zakat and income tax	12	30,178,762	27,978,017	34,595,462
Tawarruq financing facilities	14	2,872,537,785	2,801,922,613	2,822,122,562
End of service benefits	15	9,719,436	9,376,906	8,778,941
Total liabilities		2,989,150,009	2,911,904,046	2,924,793,047
Equity				
Share capital	16	1,000,000,000	1,000,000,000	1,000,000,000
Statutory reserve	17	99,217,132	97,648,519	98,018,024
Actuarial gains on end of service benefits	15	425,233	296,000	422,912
Retained earnings		416,262,440	402,144,925	370,417,997
Total equity		1,515,904,805	1,500,089,444	1,468,858,933
Total liabilities and equity		4,505,054,814	4,411,993,490	4,393,651,980

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
For the three months period ended 31 March 2020
(Amounts in Saudi Riyals)

	<i>Notes</i>	For the three months period ended March 31	
		2020 (Unaudited)	2019 (Restated) / (unaudited)
Lease finance income		73,861,201	74,303,906
Service fees, net	18	1,928,683	2,330,948
Application and evaluation fee income		1,687,000	466,251
Total revenues		77,476,884	77,101,105
Financing charges	14	(28,427,355)	(35,716,297)
General and administrative expenses	20	(19,326,216)	(13,368,231)
(Provision for) / reversal of expected credit losses	5, 8	(4,178,714)	4,661,265
Selling and marketing expenses	19	(7,849,289)	(5,918,832)
Net income before zakat and income tax		17,695,310	26,759,010
Zakat and income tax expense for the period	12	(2,200,745)	(3,254,931)
Deferred tax credit / (expense)	13	191,563	(200,278)
		(2,009,182)	(3,455,209)
Net income for the period		15,686,128	23,303,801

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
For the three months period ended 31 March 2020
(Amounts in Saudi Riyals)

	For the three months period ended March 31	
<i>Note</i>	2020 (Unaudited)	2019 (Unaudited)
Net income for the period	15,686,128	23,303,801
Other comprehensive income		
<i>Item that cannot be subsequently reclassified to the statement of income:</i>		
Actuarial gains on end of service benefits	<i>15</i> 129,233	15,942
Total comprehensive income for the period	15,815,361	23,319,743

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
For the three months period ended 31 March 2020
(Amounts in Saudi Riyals)

For the three months period ended 31 March 2020 (unaudited)						
	<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		--	--	--	15,686,128	15,686,128
Actuarial gains on end of service benefits	15	--	--	129,233	--	129,233
Total comprehensive income for the period		--	--	129,233	15,686,128	15,815,361
Transfer to statutory reserve	17	--	1,568,613	--	(1,568,613)	--
Balance at end of the period		1,000,000,000	99,217,132	425,233	416,262,440	1,515,904,805
For the three months period ended 31 March 2019 (restated) / (unaudited)						
	<i>Note</i>	Share capital	Statutory reserve	Actuarial gains on EOSB	Retained earnings	Total equity
Balance at beginning of the period, as reported		1,000,000,000	95,687,644	406,970	345,375,900	1,441,470,514
Impact of adopting IAS 12	3	--	--	--	4,068,676	4,068,676
Balance at 1 January 2019, as restated		1,000,000,000	95,687,644	406,970	349,444,576	1,445,539,190
Net income for the period		--	--	--	23,303,801	23,303,801
Actuarial gains on end of service benefits	15	--	--	15,942	--	15,942
Total comprehensive income for the period		--	--	15,942	23,303,801	23,319,743
Transfer to statutory reserve	17	--	2,330,380	--	(2,330,380)	--
Balance at end of the period		1,000,000,000	98,018,024	422,912	370,417,997	1,468,858,933

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
For the three months period ended 31 March 2020
(Amounts in Saudi Riyals)

	<i>Notes</i>	2020 (Unaudited)	2019 (Unaudited)
OPERATING ACTIVITIES			
Net income before zakat and income tax		17,695,310	26,759,010
<i>Adjustments to reconcile net income before zakat and income tax to net cash (used in) / generated from operating activities:</i>			
Depreciation and amortisation	20	1,497,930	1,254,957
Amortisation of deferred origination fees	19	1,001,999	1,062,053
Provision for / (reversal of) / expected credit losses	5, 8	4,178,714	(4,661,265)
Provision for end of service benefits	15	471,763	469,779
Amortisation of discount on lease liability	22	110,721	95,394
<i>Net (increase) / decrease in operating assets:</i>			
Prepaid expenses and other assets, net		(2,660,233)	419,751
Due from related parties		(1,409,224)	31,200
Advance from Property owner		(3,698,932)	(11,514,214)
Investments in finance lease, net		(41,864,293)	18,907,595
<i>Net increase / (decrease) in operating liabilities:</i>			
Accounts payable		7,955,240	5,473,842
Accrued expenses and other liabilities		713,661	1,161,994
Advance lease rentals		(2,705,807)	1,299,859
Net cash from operations		(18,713,151)	40,759,955
Zakat and income tax paid	14	--	(5,073,365)
End of service benefits paid	17	--	(265,212)
Deferred origination fees paid		(140,802)	(10,010)
Net cash (used in) / generated from operating activities		(18,853,953)	35,411,368
INVESTING ACTIVITIES			
Purchase of property and equipment		(368,675)	(491,406)
Purchase of intangible assets		(22,500)	--
Net cash used in investing activities		(391,175)	(491,406)
FINANCING ACTIVITIES			
Additions in Tawarruq financing facilities		129,424,328	30,054,051
Repayment of Tawarruq financing facilities		(58,809,156)	(32,169,650)
Payment of lease liability		(2,068,046)	(2,273,324)
Net cash generated from / (used in) financing activities		68,547,126	(4,388,923)
Net increase in cash and cash equivalents		49,301,998	30,531,039
Cash and cash equivalents at beginning of the period		54,199,589	79,643,334
Cash and cash equivalents at end of the period		103,501,587	110,174,373
Supplemental cash information			
Lease finance income received		74,376,272	76,413,240
Financing charges paid		24,133,743	35,627,418
Supplemental non-cash information			
Capital work in progress transferred to intangible assets and property and equipment		71,092	7,425
Investments in finance lease transferred to other real estate		1,498,596	2,451,086

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 three months period ended 31 March 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 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.

2. BASIS OF PREPARATION

a) *Statement of compliance*

These interim condensed financial statements for the three months period ended 31 March 2020 have been prepared in accordance with the International Accounting Standard ("IAS") 34: "Interim Financial Reporting" as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organisation for Certified Public Accountants ("SOCPA").

These interim condensed financial statements as at and for the period ended 31 March 2019 were prepared in compliance with IAS 34 as modified by SAMA for the accounting of zakat and income tax (relating to the application of IAS 12 "Income Taxes" and IFRIC 21 "Levies" so far as these relate to zakat and income tax.

On 17 July 2019, SAMA instructed the financing companies in the Kingdom of Saudi Arabia to account for the zakat and income taxes in the statement of income. This aligns with the IFRS and its interpretations as issued by the International Accounting Standards Board and as endorsed in the Kingdom of Saudi Arabia and with the other standards and pronouncements that are issued by SOCPA (collectively referred to as "IFRS as endorsed in KSA").

Accordingly, the Company changed its accounting treatment for zakat and income tax by retrospectively adjusting the impact in line with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". The impact of this change are disclosed in note 3 to the interim condensed financial statements.

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 liability 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.

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
For the three months period ended 31 March 2020
(Amounts in Saudi Riyals)

3. SIGNIFICANT ACCOUNTING POLICIES

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

Impact of change in the accounting for zakat and income tax in the comparative statements

On 17 July 2019, SAMA issued an instruction whereby it amended the accounting treatment for zakat and income tax. Previously, zakat and income tax were recognised in the statement of changes in equity as per SAMA circular no. 381000074519 dated 11 April 2017. With the latest instructions issued by SAMA, the zakat and income tax shall be recognised in the statement of income. The Company has accounted for this change in the accounting for zakat and income tax retrospectively. The change in the accounting treatment for zakat and income tax has the following impact on the line items of the statements of income, financial position and changes in equity:

As at and for the three months period ended 31 March 2019:

<u>Financial statement impacted</u>	<u>Account</u>	Before the restatement as at and for the three months period ended 31 March 2019:	Effect of restatement	As restated as at and for the three months period ended 31 March 2019:
Statement of changes in equity	Provision for zakat and income tax (retained earnings)	3,254,931	(3,254,931)	--
Statement of income	Zakat and income tax expense	--	3,455,209	3,455,209
Statement of financial position	Deferred tax assets	--	3,868,398	3,868,398

As at 1 January 2019:

<u>Financial statement impacted</u>	<u>Account</u>	Before the restatement as at 1 January 2019:	Effect of restatement	As restated as at 1 January 2019:
Statement of financial position	Deferred tax assets	--	4,068,676	4,068,676
Statement of financial position	Retained earnings	345,375,900	4,068,676	349,444,576

The change has had no impact on the statement of cash flows for the period ended 31 March 2019.

On the basis of materiality, the deferred tax arising from the adjustment upon first time adoption of IFRS 9 (i.e. expected credit losses) was recognised by the Company in profit or loss for the period ended 31 March 2019.

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
For the three months period ended 31 March 2020
(Amounts in Saudi Riyals)

4. PREPAID EXPENSES AND OTHER ASSETS, NET

Prepaid expenses and other assets comprised of the following:

	31 March 2020	31 December	
	(Unaudited)	2019	31 March 2019
		(Audited)	(Unaudited)
Insurance claims receivable on decess-case leases	33,446,476	36,111,870	24,206,278
VAT receivable	26,052,136	22,791,195	12,377,679
Due from real estate development fund	6,652,689	9,354,696	-
Advance tax	3,783,371	3,783,371	3,460,872
Legal claim	3,294,089	1,018,356	1,018,356
Prepaid financing facility interest (IFC)	1,577,079	--	2,149,944
Prepaid Insurance	1,495,493	43,447	2,843,113
Prepaid financing facility fees (IFC)	1,331,476	1,409,800	1,670,880
Prepaid financing facility fees (GIB)	693,750	862,500	1,425,000
Sijil / SFLRC registration charges	620,100	718,200	-
Prepaid software maintenance	581,752	450,630	708,541
Employees' advances and receivables	158,129	130,818	153,929
Others	1,039,532	691,846	784,760
	80,726,072	77,366,729	50,799,352
Allowance for provision for:			
- ECL on insurance claims receivable on non-performing decess-case leases	(12,797,421)	(12,098,311)	(12,226,108)
- Legal claim	(1,494,089)	(1,494,089)	(1,494,089)
	66,434,562	63,774,329	37,079,155

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.

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.

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
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For the three months period ended 31 March 2020
(Amounts in Saudi Riyals)

6. RELATED PARTY TRANSACTIONS (CONTINUED)

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
ANB Metlife	Affiliate
Afwaf Investment Company	Affiliate

The significant transactions during the period are as follows:

	31 March 2020 <u>(Unaudited)</u>	31 March 2019 <u>(Unaudited)</u>
Tawaruq financing charges (ANB)	19,513,437	27,858,688
Tawaruq financing charges (IFC)	2,032,621	2,565,138
Service fees, net (Note 18)	1,928,683	2,330,948
Residential unit purchased (Dar Alarkan)	--	1,871,328

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

	31 March 2020 <u>(Unaudited)</u>	31 December 2019 <u>(Audited)</u>	31 March 2019 <u>(Unaudited)</u>
Loan obtained from a shareholder (ANB)	1,879,319,329	1,900,010,120	2,218,101,796
Loan obtained from a shareholder (IFC)	156,250,000	172,186,266	187,500,000
Prepaid interest expense (IFC)	3,783,371	1,409,800	3,460,872
Due from related parties related to service fees (ANB)	1,475,493	765,379	866,047
Prepaid financing facility fees (IFC)	1,331,476	1,409,800	1,670,880
Deferred origination fees (Note 9)	140,802	108,864	10,010

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.

	31 March 2020 <u>(Unaudited)</u>	31 December 2019 <u>(Audited)</u>	31 March 2019 <u>(Unaudited)</u>
Salaries	799,825	2,108,571	464,064
End of service benefits	51,288	175,714	38,672
Other allowances	89,328	799,825	147,282
	<u>940,441</u>	<u>3,084,110</u>	<u>650,018</u>

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7. 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 Financial Lease Contract Registry Company (“SFLCRC”) was established on 3/2/1439, corresponding to 23 October 2017, under CR No. 1010612415, and 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. Sijil 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.

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.

8. INVESTMENTS IN FINANCE LEASE, NET

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

	31 March 2020	31 December 2019	31 March 2019
	<u>(Unaudited)</u>	<u>(Audited)</u>	<u>(Unaudited)</u>
Minimum lease payments			
Performing leases	6,672,888,784	6,627,877,566	6,499,162,546
Non-performing leases	303,787,106	292,442,761	300,097,662
Investments in finance lease, gross	6,976,675,890	6,920,320,327	6,799,260,208
Less: Unearned finance income	(2,619,667,859)	(2,603,677,993)	(2,563,393,877)
Investments in finance lease before impairment	4,357,008,031	4,316,642,334	4,235,866,331
Less: Allowance for expected credit losses	(81,705,926)	(78,226,322)	(61,737,825)
Investments in finance lease, net	4,275,302,105	4,238,416,012	4,174,128,506
Less: Current portion	(275,608,415)	(272,351,588)	(264,327,423)
Less: Accrued finance lease receivable	(41,628,099)	(42,143,170)	(37,989,618)
Non-current portion	3,958,065,591	3,923,921,254	3,871,811,465

Investments represent net investment in finance lease. Total number of outstanding lease agreements as at 31 March 2020 is 7,009 (31 December 2019: 6,909; 31 March 2019: 6,619).

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 15), 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.

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
For the three months period ended 31 March 2020
(Amounts in Saudi Riyals)

8. INVESTMENTS IN FINANCE LEASE, NET (CONTINUED)

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

	31 March 2020	31 December 2019	31 March 2019
	(Unaudited)	(Audited)	(Unaudited)
Opening balance, as reported	78,226,322	66,899,663	66,899,663
Charge for the period	3,479,604	11,326,659	(5,161,839)
Closing balance	<u>81,705,926</u>	<u>78,226,322</u>	<u>61,737,824</u>

8.2 The credit quality of investments in finance lease as at 31 March 2020 is as follows:

	12 month ECL	Life time ECL not credit impaired	Life time ECL credit impaired	Total
Gross carrying amount	3,686,629,150	453,059,638	217,319,242	4,357,008,030
Allowance for expected credit losses	(1,467,203)	(29,639,949)	(50,598,773)	(81,705,925)
Net carrying amount	<u>3,685,161,947</u>	<u>423,419,689</u>	<u>166,720,469</u>	<u>4,275,302,105</u>

The credit quality of investments in finance lease as at 31 December 2019 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	(989,755)	(28,117,460)	(49,119,107)	(78,226,322)
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 31 March 2019 is as follows:

	12 month ECL	Life time ECL not credit impaired	Life time ECL credit impaired	Total
Gross carrying amount	3,524,985,595	492,535,904	218,344,832	4,235,866,331
Allowance for expected credit losses	(2,858,080)	(13,385,333)	(45,494,410)	(61,737,825)
Net carrying amount	<u>3,522,127,515</u>	<u>479,150,571</u>	<u>172,850,422</u>	<u>4,174,128,506</u>

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8. INVESTMENTS IN FINANCE LEASE, NET (CONTINUED)

8.3 Maturity profile of the lease payments is as follows:

<u>Year</u>	<u>31 March 2020</u>			<u>31 December 2019</u>	<u>31 March 2019</u>
	<u>Minimum lease payments</u>	<u>Unearned finance income</u>	<u>Investments in finance lease</u>	<u>Investments in finance lease</u>	<u>Investments in finance lease</u>
Within one year	614,482,440	297,245,926	317,236,514	314,494,758	302,317,042
Year two	561,121,221	276,428,296	284,692,925	280,560,759	271,202,292
Year three	547,507,853	255,272,052	292,235,801	288,467,973	278,370,134
Year four	528,862,638	233,758,188	295,104,450	292,213,868	284,297,478
Year five and later	4,724,701,738	1,556,963,397	3,167,738,341	3,140,904,976	3,099,679,385
	6,976,675,890	2,619,667,859	4,357,008,031	4,316,642,334	4,235,866,331

8.4 Expected credit loss allowance on investments in finance lease as at 31 March 2020 is as follows:

<u>Loss Allowance</u>	<u>12 Month ECL</u>	<u>Lifetime ECL</u>		<u>Total</u>
		<u>Not credit impaired</u>	<u>Credit impaired</u>	
Opening balance at 1 January 2020	989,755	28,117,460	49,119,107	78,226,322
Transfer to 12 Month ECL	71,043	(69,750)	(1,293)	--
Transfer to Lifetime ECL (not credit impaired)	(77,135)	543,573	(466,438)	--
Transfer to Lifetime ECL (credit impaired)	(312)	(1,311,135)	1,311,447	-
Net change for the period	483,853	2,359,801	635,950	3,479,604
Closing balance as of 31 March 2020	1,467,204	29,639,949	50,598,773	81,705,926

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

<u>Loss allowance</u>	<u>12 Month ECL</u>	<u>Lifetime ECL</u>		<u>Total</u>
		<u>Not credit impaired</u>	<u>Credit impaired</u>	
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 change 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 31 March 2019 is as follows:

<u>Loss allowance</u>	<u>12 Month ECL</u>	<u>Lifetime ECL</u>		<u>Total</u>
		<u>Not credit impaired</u>	<u>Credit impaired</u>	
Opening balance at 1 January 2019	1,573,096	10,168,697	55,157,869	66,899,662
Transfer to 12 Month ECL	58,647	(48,618)	(10,029)	--
Transfer to Lifetime ECL (not credit impaired)	(34,763)	1,427,593	(1,392,830)	--
Transfer to Lifetime ECL (credit impaired)	(1,184)	(376,931)	378,115	--
Net change for the period	1,262,285	2,214,592	(8,638,715)	(5,161,838)
Closing balance as of 31 March 2019	2,858,081	13,385,333	45,494,410	61,737,824

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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 31 March 2020, the carrying amount of gross non-performing leases amounted to SR 171.97 million (31 December 2019: SR 177.05 million and 31 March 2019: 221.10 million) and the fair value of identifiable real estate collateral held against them amounted to SR 236.02 million (31 December 2019: SR 214.71 million and 31 March 2019: SR300.10 million). The Company has a policy to value every year, all real estate properties leased out, by involving approved appraisers.

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.

	31 March 2020 <u>(Unaudited)</u>	31 December 2019 <u>(Audited)</u>	31 March 2019 <u>(Unaudited)</u>
Deferred origination fees	24,930,402	25,791,599	28,758,193
Less: Current portion	<u>(2,848,447)</u>	<u>(2,908,196)</u>	<u>(3,088,536)</u>
Non-current portion	<u>22,081,955</u>	<u>22,883,403</u>	<u>25,669,657</u>

10. ACCOUNTS PAYABLE

As at 31 March 2020, the Company's accounts payable includes an amount due to the Ministry of Housing (MOH) which amounted to SR 45 million (31 December 2019: SR 41.5 million and 31 March 2019: SR 31.4 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 31 March 2020, the corresponding investments in finance lease to these contracts amounted to SR 44.2 million (31 December 2019: SR 40.8 million; and 31 March 2019: SR 29.6 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.

11. ACCRUED EXPENSES AND OTHER LIABILITIES

	31 March 2020 <u>(Unaudited)</u>	31 December 2019 <u>(Audited)</u>	31 March 2019 <u>(Unaudited)</u>
Employees' related expenses	6,719,212	5,570,132	4,673,518
Accrued insurance	1,161,319	1,421,442	1,126,585
Accrued legal and consultation fees	435,000	370,000	397,105
Provision for maintenance on finance lease contracts	414,800	424,800	384,389
Accrued origination fees	9,613	16,980	--
Others	580,988	803,917	1,087,866
Total	<u>9,320,932</u>	<u>8,607,271</u>	<u>7,669,463</u>

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12. PROVISION FOR ZAKAT AND INCOME TAX

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

	31 March 2020 (Unaudited)	31 December 2019 (Audited)	31 March 2019 (Unaudited)
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	2,200,745	11,727,305	3,254,931
Zakat for the prior periods	--	12,831,866	--
Payment during the period / year	--	(32,995,050)	(5,073,365)
Balance, end of the period / year	<u>30,178,762</u>	<u>27,978,017</u>	<u>34,595,462</u>

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

Prior years zakat settlement

In February 2019, the Company received a settlement agreement from the GAZT to settle the outstanding assessments relating to zakat for the financial years from 2014 to 2017 and provided a settlement calculation method for financial year 2018. The Company has accepted this settlement agreement where an advance payment of SR 5.07 million (20% of the settlement amount) was paid in March 2019 while the remaining balance will be paid in 5 equal instalments due in December each year. As at 31 March 2020, the outstanding balance amounted to SR 16.23 million.

Furthermore, the Company has received final settlement letter from GAZT dated 26 June 2019 to clear all outstanding assessments for the years from 2008 to 2013. The final assessment requires the Company to pay additional zakat of SR 12.8 million. The Company accepted the settlement and paid the amount to GAZT.

13. DEFERRED TAX

	31 March 2020 (Unaudited)	31 December 2019 (Restated)	31 March 2019 (Unaudited)
Balance at the beginning of the period / year	4,563,723	4,068,676	4,068,676
Movement for the period	191,563	495,047	(200,278)
Balance at end of the period / year	<u>4,755,286</u>	<u>4,563,723</u>	<u>3,868,398</u>

The Company's deferred tax assets arise primarily from employees' end of service benefits liability and expected credit losses. Based on management assessment, the Company expects sufficient future taxable profits to be available against which the deferred tax assets will be utilised.

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14. TAWARRUQ FINANCING FACILITIES

	31 March 2020 <u>(Unaudited)</u>	31 December 2019 <u>(Audited)</u>	31 March 2019 <u>(Unaudited)</u>
Current portion of facilities	901,214,937	421,615,415	643,677,938
Non-current portion of facilities	1,959,220,679	2,372,498,640	2,173,390,573
Total excluding financial charges	2,860,435,616	2,794,114,055	2,817,068,511
Accrued Tawarruq financing charges	12,102,169	7,808,558	5,054,051
Total including financial charges	<u>2,872,537,785</u>	<u>2,801,922,613</u>	<u>2,822,122,562</u>

This item represents the Tawarruq financing facilities from different banks and Saudi Refinance Company (“SRC”) to finance the investments in finance lease as follows:

	31 March 2020 <u>(Unaudited)</u>	31 December 2019 <u>(Audited)</u>	31 March 2019 <u>(Unaudited)</u>
Arab National Bank	1,878,325,047	1,900,010,120	2,218,101,796
Gulf International Bank	397,687,596	401,395,147	416,520,766
International Finance Corporation	156,250,000	172,186,266	187,500,000
National Commercial Bank	390,078,195	328,331,080	--
Saudi Real Estate Refinance Company	50,196,947	--	--
	<u>2,872,537,785</u>	<u>2,801,922,613</u>	<u>2,822,122,562</u>

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 Company has notified in April 2020 the Company’s bank lender to which the Company opted to defer payments for six months on its eligible 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 without 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. This has resulted in the Company recognising a day 1 modification gain of SR 1.34 million as at 31 March 2020 and this has been presented as part of financing charges.

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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.

	31 March 2020 <u>(Unaudited)</u>	31 December 2019 <u>(Audited)</u>	31 March 2019 <u>(Unaudited)</u>
<u>Defined benefit cost</u>			
Current service cost	398,652	1,465,902	366,476
Interest cost	73,110	413,212	103,303
Actuarial (gains) / losses recognised in OCI during the period	<u>(129,232)</u>	<u>110,970</u>	<u>(15,942)</u>
Total defined benefit cost	<u>342,530</u>	<u>1,990,084</u>	<u>453,837</u>

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

	31 March 2020 <u>(Unaudited)</u>	31 December 2019 <u>(Audited)</u>	31 March 2019 <u>(Unaudited)</u>
Defined benefit obligation at the beginning of the period / year	9,376,906	8,590,316	8,590,316
Current service cost	398,652	1,465,902	366,476
Interest cost on defined benefit obligation	73,110	413,212	103,303
Benefits paid to outgoing employees	-	(1,203,494)	(265,212)
Actuarial gain on obligation	<u>(129,232)</u>	<u>110,970</u>	<u>(15,942)</u>
Defined benefit obligation at the end of the period / year	<u>9,719,436</u>	<u>9,376,906</u>	<u>8,778,941</u>

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.

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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. Fees earned from sold portfolio during the period ended 31 March 2020 amounted to SR 1.93 million (SR 2.33 million during the period ended 31 March 2019).

19. SELLING AND MARKETING EXPENSES

	31 March 2020 <u>(Unaudited)</u>	31 March 2019 <u>(Unaudited)</u>
Insurance expenses	3,858,787	3,227,075
Origination expenses	1,001,999	1,062,053
Sales, collection and title transfer commission	1,498,782	891,639
Marketing expenses	607,600	336,616
Evaluation fees	801,600	356,450
Others	80,521	44,999
	<u>7,849,289</u>	<u>5,918,832</u>

20. GENERAL AND ADMINISTRATIVE EXPENSES

	31 March 2020 <u>(Unaudited)</u>	31 March 2019 <u>(Unaudited)</u>
Employees’ salaries and other benefits	11,877,258	9,834,873
Impairment loss on assets	2,562,999	--
Consultation fees	1,922,715	758,596
Depreciation and amortisation	1,497,930	1,350,352
Bank charges	133,019	105,993
Software support charges	331,869	334,161
Telecommunication expenses	224,980	180,999
Travel expenses	176,230	216,103
Repairs and maintenance	125,722	112,329
VAT expense	100,894	109,629
Printing and stationary	80,169	23,378
Recruitment related expenses	51,906	114,679
Withholding tax	7,508	6,931
Others	233,017	220,208
	<u>19,326,216</u>	<u>13,368,231</u>

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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 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, except the Company's equity investments in SFLCRC (note 8), 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 and investment are as follows:

	<u>Carrying value</u>	<u>31 March 2020 (Unaudited)</u>			<u>Total</u>
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Net investments in finance leases	4,275,302,105	--	--	4,271,125,545	4,271,125,545
Investment	892,850	--	--	892,850	892,850
Total		<u>--</u>	<u>--</u>	<u>4,272,018,395</u>	<u>4,272,018,395</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
Investment	892,850	--	--	892,850	892,850
Total		<u>--</u>	<u>--</u>	<u>4,234,117,532</u>	<u>4,234,117,532</u>
		<u>31 March 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	4,174,128,506	--	--	4,169,012,617	4,169,012,617
Investment	892,850	--	--	892,850	892,850
Total		<u>--</u>	<u>--</u>	<u>4,169,905,467</u>	<u>4,169,905,467</u>

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21. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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.

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:

	31 March 2020	31 December 2019	31 March 2019
Total capital ratio %	22.43%	22.83%	22.82%

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 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

During March 2020, the World Health Organisation ("WHO") declared the Coronavirus ("COVID-19") outbreak as a pandemic in recognition of its rapid spread across the globe. This outbreak has also affected the GCC region including the Kingdom of Saudi Arabia. Governments all over the world took steps to contain the spread of the virus. Saudi Arabia in particular has implemented closure of borders, released social distancing guidelines and enforced country wide lockdowns and curfews.

Oil prices have also witnessed significant volatility during the current period, owing not just to demand issues arising from COVID-19 as the world economies go into lockdown, but also supply issues driven by volume which had predated the pandemic. The Company has evaluated the current situation through conducting stress testing scenarios in addition to other risk management practices to manage the potential business disruption due to COVID-19 outbreak that may have on its operations and financial performance. The steps taken by management also include commencing review of credit exposure concentrations at a more granular level, collateral protection, timely review and customer credit rating actions and appropriately restructuring loans, where required. These also take into consideration the impacts of government and SAMA support relief programmes.

These current events and the prevailing economic condition require the Company to revise certain inputs and assumptions used for the determination of ECL. These would primarily revolve around either adjusting macroeconomic factors used by the Company in estimation of ECL revisions to the scenario probabilities currently being used by the Company in ECL estimation. The adjustments to macroeconomic factors and scenario weightings resulted in an additional ECL of SR 1.04 million for the Company. 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. The impact of such uncertain economic environment is judgemental and the Company will continue to reassess its position and the related impact on a regular basis.

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

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 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 discussed in note 14 to the interim condensed financial statements.

25. SUBSEQUENT EVENTS

During April 2020, SAMA has issued further 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. The Company will consider the guidance issued and evaluate the accounting impact in Q2 2020 accordingly.

Apart from the above matter, there have been no events subsequent to the reporting date that would require adjustment nor disclosure to the interim condensed consolidated interim financial statements as at and for the three months period ended 31 March 2020.

26. APPROVAL OF THE BOARD OF DIRECTORS

These financial statements were approved by the Board of Directors on 20 Ramadan1441H corresponding to 13 May 2020.