

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
INTERIM CONDENSED FINANCIAL STATEMENTS
(Unaudited)
For the three months period ended 31 March 2019
Together with the
Independent auditors' review report on the
interim condensed financial statements

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
INTERIM CONDENSED FINANCIAL STATEMENTS
For the three months period ended 31 March 2019

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Independent auditors' review report on the interim condensed financial statements

To the shareholders of Saudi Home Loans Company

Introduction

We have reviewed the accompanying 31 March 2019 interim condensed financial statements of **Saudi Home Loans Company** ("the Company"), which comprises:

- the interim condensed statement of financial position as at 31 March 2019;
- the interim condensed statement of income for the three months period ended 31 March 2019;
- the interim condensed statement of comprehensive income for the three months period ended 31 March 2019;
- the interim condensed statement of changes in equity for the three months period ended 31 March 2019;
- the interim condensed statement of cash flows for the three months period ended 31 March 2019; 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 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 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 2019 interim condensed financial statements of **Saudi Home Loans Company** ("the 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

Dr. Abdullah Hamad Al Fozan
License No: 348

23 Sha'ban 1440H
Corresponding to: 28 April 2019



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

		31 March 2019	31 December 2018	31 March 2018
	<i>Note</i>	<u>(Unaudited)</u>	<u>(Audited)</u>	<u>(Unaudited)</u>
<u>ASSETS</u>				
Cash and cash equivalents		110,174,373	79,643,334	136,624,105
Prepaid expenses and other assets, net	5	37,079,155	37,999,480	25,279,270
Advances to property owners	6	17,425,500	5,911,286	2,290,000
Due from related parties	7	866,047	897,247	2,001,859
Investment	8	892,850	892,850	892,850
Investments in finance lease, net	9	4,174,128,506	4,190,325,349	4,171,410,106
Deferred origination fees	10	28,758,193	29,810,236	31,813,818
Other real estate		5,280,771	2,829,685	1,079,685
Right-of-use asset	11	7,750,594	--	--
Property and equipment, net		4,302,793	4,065,263	4,412,685
Intangible assets, net		3,124,800	3,562,076	4,244,450
Total assets		<u>4,389,783,582</u>	<u>4,355,936,806</u>	<u>4,380,048,828</u>
<u>LIABILITIES AND EQUITY</u>				
Liabilities				
Accounts payable	12	36,411,743	30,937,901	2,187,699
Accrued expenses and other liabilities	13	7,669,463	6,507,469	6,293,254
Advance lease rentals		9,078,408	7,778,549	10,984,211
Lease liability	11	6,136,468	--	--
Provision for zakat and income tax	14	34,595,462	36,413,896	10,239,162
Tawarruq financing facilities	15	2,822,122,562	2,824,238,161	2,922,496,542
End of service benefits	16	8,778,941	8,590,316	8,038,666
Total liabilities		<u>2,924,793,047</u>	<u>2,914,466,292</u>	<u>2,960,239,534</u>
Equity				
Share capital	17	1,000,000,000	1,000,000,000	1,000,000,000
Statutory reserve	18	98,363,545	95,687,644	90,271,962
Actuarial gains on end of service benefits	16	422,912	406,970	67,962
Retained earnings		366,204,078	345,375,900	329,469,370
Total equity		<u>1,464,990,535</u>	<u>1,441,470,514</u>	<u>1,419,809,294</u>
Total liabilities and equity		<u>4,389,783,582</u>	<u>4,355,936,806</u>	<u>4,380,048,828</u>

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 2019
(Amounts in Saudi Riyals)

	<i>Note</i>	For three months ended March 31	
		2019 (Unaudited)	2018 (Unaudited)
Lease finance income		74,303,906	69,206,449
Service fees, net	<i>19</i>	2,330,948	2,661,232
Application and evaluation fee income		466,251	659,687
Other income		--	167,500
Total operating income		77,101,105	72,694,868
Financing charges	<i>15</i>	(35,716,297)	(30,383,967)
General and administrative expenses	<i>21</i>	(13,368,231)	(12,093,675)
Reversal of / (provision for) expected credit losses	<i>5, 9</i>	4,661,265	(2,823,397)
Selling and marketing expenses	<i>20</i>	(5,918,832)	(5,770,491)
Net income for the period		26,759,010	21,623,338

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 2019
(Amounts in Saudi Riyals)

	For three months ended March 31	
<i>Note</i>	2019 (Unaudited)	2018 (Unaudited)
Net income for the period	26,759,010	21,623,338
Other comprehensive income		
<i>Item that cannot be subsequently reclassified to statement of income:</i>		
Actuarial gains on end of service benefits	<i>16</i> 15,942	67,962
Total comprehensive income for the period	26,774,952	21,691,300

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 2019
(Amounts in Saudi Riyals)

For the three months period ended 31 March 2019 (Unaudited)							
	<i>Note</i>	<u>Share capital</u>	<u>Statutory reserve</u>	<u>Actuarial gains on EOSB</u>	<u>Retained earnings</u>	<u>Total equity</u>	
Balance at beginning of the period		1,000,000,000	95,687,644	406,970	345,375,900	1,441,470,514	
Net income for the period		--	--	--	26,759,010	26,759,010	
Actuarial gains for end of service benefits	16	--	--	15,942	--	15,942	
Total comprehensive income for the period		--	--	15,942	26,759,010	26,774,952	
Transfer to statutory reserve	18	--	2,675,901	--	(2,675,901)	--	
Zakat and income tax	14	--	--	--	(3,254,931)	(3,254,931)	
Balance at end of the period		1,000,000,000	98,363,545	422,912	366,204,078	1,464,990,535	
For the three months period ended 31 March 2018 (Unaudited)							
	<i>Note</i>	<u>Share capital</u>	<u>Statutory reserve</u>	<u>General Reserve</u>	<u>Actuarial gains on EOSB</u>	<u>Retained earnings</u>	<u>Total equity</u>
Balance at beginning of the period		1,000,000,000	88,109,628	40,604,666	--	305,676,175	1,434,390,469
Impact of adopting IFRS 9 at 1 January 2018		--	--	--	--	(32,599,220)	(32,599,220)
Balance at 1 January 2018 as restated		1,000,000,000	88,109,628	40,604,666	--	273,076,955	1,401,791,249
Net income for the period		--	--	--	--	21,623,338	21,623,338
Actuarial gains for end of service benefits	16	--	--	--	67,962	--	67,962
Total comprehensive income for the period		--	--	--	67,962	21,623,338	21,691,300
Transfer to statutory reserve	18	--	2,162,334	--	--	(2,162,334)	--
Reclassification of general reserve	18	--	--	(40,604,666)	--	40,604,666	--
Zakat and income tax	14	--	--	--	--	(3,673,255)	(3,673,255)
Balance at end of the period		1,000,000,000	90,271,962	--	67,962	329,469,370	1,419,809,294

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 2019
(Amounts in Saudi Riyals)

	<u>Notes</u>	2019 (Unaudited)	2018 (Unaudited)
OPERATING ACTIVITIES			
Net income for the period		26,759,010	21,623,338
<i>Adjustments to reconcile net income to net cash generated from operating activities:</i>			
Charge for (reversal of) expected credit losses	5, 9	(4,661,265)	2,823,397
Depreciation and amortisation	21	1,254,957	684,766
Amortisation of deferred origination fees		1,062,053	953,649
Provision for end of service benefits	16	469,779	403,025
Amortisation of discount on lease liability	21	95,394	--
<i>Net (increase) / decrease in operating assets:</i>			
Prepaid expenses and other assets, net		419,751	7,270,357
Due from related parties		31,200	(970,501)
Advances to property owners		(11,514,214)	9,466,000
Investments in finance lease		18,907,595	(24,818,435)
<i>Net increase / (decrease) in operating liabilities:</i>			
Accounts payable		5,473,842	431,883
Accrued expenses and other liabilities		1,161,994	451,825
Advance lease rentals		1,299,859	(620,018)
Net cash from operations		40,759,955	17,699,286
Zakat and income tax paid	14	(5,073,365)	(89,684)
End of service benefits paid	16	(265,212)	(24,494)
Deferred origination fees paid		(10,010)	(330,152)
Net cash generated from operating activities		35,411,368	17,254,956
INVESTING ACTIVITIES			
Purchase of property and equipment		(491,406)	(91,403)
Purchase of intangible assets		--	(21,847)
Net cash used in investing activities		(491,406)	(113,250)
FINANCING ACTIVITIES			
Additions in Tawarruq financing facilities		30,054,051	127,692,410
Repayment of Tawarruq financing facilities		(32,169,650)	(33,296,489)
Payment of lease liability		(2,273,324)	--
Net cash (used in) / generated from financing activities		(4,388,923)	94,395,921
Net increase in cash and cash equivalents		30,531,039	111,537,627
Cash and cash equivalents at beginning of the period		79,643,334	25,086,478
Cash and cash equivalents at end of the period		110,174,373	136,624,105
Supplemental cash information			
Lease finance income received		76,413,240	71,614,089
Financing charges paid		35,627,418	29,336,220
Supplemental non-cash information			
Capital work in progress transferred to intangible assets and property and equipment		7,425	112,679
Investments in finance lease transferred to other real estate		2,451,086	--
Right-of-use asset	11	7,750,594	--
Lease liability	11	6,136,468	--

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 2019
(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'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.

2. BASIS OF PREPARATION

a) *Statement of compliance*

These interim condensed financial statements for the three months period ended 31 March 2019 have been prepared in accordance with the International Accounting Standard ("IAS") 34: "Interim Financial Reporting" as modified by SAMA for the accounting of zakat and income tax', which requires adoption of all IFRS as issued by the International Accounting Standards Board ("IASB") except for the application of 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 11 April 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 2018. The Company has adopted IFRS 16 "Leases" from 1 January 2019 and accounting policies for this new standard are disclosed in the Note 3.

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 2019
(Amounts in Saudi Riyals)

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

3.1 IFRS 16 Leases

Effective 1 January 2019, the Company has adopted a new accounting standard IFRS 16.

Leases that do not transfer to the Company substantially all of the risk and benefits of ownership of the asset are classified as operating leases. Consequently, all of the leases entered into by the Company are all operating leases. Payments made under operating leases are charged to the statement of income on a straight-line basis over the period of the lease.

The company adopted IFRS 16. The standard replaces the existing guidance on leases, including IAS 17 “Leases”, IFRIC 4 ‘Determining whether an Arrangement contains a Lease’, SIC 15 “Operating Leases – Incentives” and SIC 27 “Evaluating the Substance of Transactions in the Legal Form of a Lease”.

IFRS 16 was issued in January 2016 and is effective for annual periods commencing on or after 1 January 2019. IFRS 16 stipulates that all leases and the associated contractual rights and obligations should generally be recognised in the Company’s statement of financial position, unless the term is 12 months or less or if the leases are for low value assets. Thus, the classification required under IAS 17 “Leases” into either operating or finance leases is eliminated for lessees. For each lease, the lessee recognises a liability for the lease obligations to be incurred in the future. Correspondingly, a right to use the leased asset is capitalised, which is generally equivalent to the present value of the future lease payments plus directly attributable costs and which is amortised over the useful life.

During the first time application of IFRS 16, the right to use the leased assets is generally measured at the amount of lease liability, using the interest rate at the time of first time application.

The Company adopted IFRS 16 using the modified retrospective approach. The Company elected to apply the standard to contracts that were previously identified as lease applying IAS 17 and IFRIC 4. The Company therefore did not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4. The Company elected to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value, whenever applicable.

IFRS 16 transition disclosures also requires the Company to present the reconciliation of the off-balance sheet lease obligations as at 31 December 2018. However, all of the Company’s lease contracts expired on 31 December 2018 except for one lease contract with remaining 2 months lease term. Hence, there had been no adjustment required as at 1 January 2018.

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 2019
(Amounts in Saudi Riyals)

4. 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 2018 except for the policies explained below.

Before 1 January 2019, the Company followed the below accounting policy where the company was the lessee.

Operating leases

Where the Company was a lessee, rental payments were recognised as expenses in the statement of income on a straight-line method basis over the lease contract period.

Accounting policy applicable on and after 1 January 2019:

Based on the adoption of IFRS 16 as explained in Note 3, the following accounting policies are applicable effective 1 January 2019.

Right of use asset / lease liability

On initial recognition, at inception of the contract, the Company shall assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is identified if most of the benefits are flowing to the Company and the Company can direct the usage of such assets.

Right of use assets

The Company applies cost model, and measures right of use asset at cost:

- a. less any accumulated depreciation and any accumulated impairment losses; and
- b. adjusted for any re-measurement of the lease liability for lease modifications.

Lease liability

On initial recognition, the lease liability is the present value of all remaining payments to the lessor. Subsequent to the commencement date, the Company measures the lease liability by:

- a) Increasing the carrying amount to reflect interest on the lease liability;
- b) Reducing the carrying amount to reflect the lease payments made; and
- c) Re-measuring the carrying amount to reflect any re-assessment or lease modification.

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 2019
(Amounts in Saudi Riyals)

5. PREPAID EXPENSES AND OTHER ASSETS, NET

Prepaid expenses and other assets comprised of the following:

	31 March 2019 <u>(Unaudited)</u>	31 December 2018 <u>(Audited)</u>	31 March 2018 <u>(Unaudited)</u>
Insurance claims receivable on decess- case leases	24,206,278	25,171,311	24,853,776
VAT receivable	12,377,679	8,366,174	--
Advance tax	3,460,872	3,460,872	3,293,700
Prepaid insurance	2,843,113	3,686,186	840,232
Prepaid financing facility interest (IFC)	2,149,944	4,662,866	1,646,797
Prepaid financing facility fees (IFC)	1,670,880	1,723,096	1,958,068
Prepaid financing facility fees (GIB)	1,425,000	1,537,500	2,062,500
Legal claim	1,018,356	1,018,356	1,018,356
Prepaid software maintenance	708,541	843,621	574,240
Employees' advances and receivables	153,929	144,199	112,983
Others	784,760	604,922	1,420,309
	50,799,352	51,219,103	37,780,961
Allowance for provision for:			
- ECL on insurance claims receivable on non-performing decess-case	(12,226,108)	(12,201,267)	(11,483,335)
- Legal claim	(1,494,089)	(1,018,356)	(1,018,356)
	37,079,155	37,999,480	25,279,270

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

6. 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.

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.

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
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7. 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 Instalment Company	Shareholder
ANB Metlife	Affiliate
Afwaf Investment Company	Affiliate

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

	31 March 2019 (Unaudited)	31 December 2018 (Audited)	31 March 2018 (Unaudited)
Loan obtained from a shareholder (ANB)	25,000,000	2,216,981,529	125,000,000
Loan obtained from a shareholder (IFC)	--	187,500,000	--
Tawaruq financing charges (ANB)	27,858,688	109,898,506	25,363,023
Tawaruq financing charges (IFC)	2,565,138	8,794,273	2,102,408
Takaful protection coverage (ANB Metlife)	--	8,236,857	3,165,180
Service fees, net	2,330,948	10,156,303	2,661,232
Prepaid financing facility fees (IFC)	--	1,723,096	--
Prepaid interest expense IFC	--	4,662,866	--
Lease contract with an affiliate	1,882,090	1,882,090	1,882,090
Deferred origination fees paid (Note 10)	10,010	1,119,091	330,152

Due from related parties, is comprised of the following:

	31 March 2019 (Unaudited)	31 December 2018 (Audited)	31 March 2018 (Unaudited)
Arab National Bank	866,047	897,247	2,001,859
	866,047	897,247	2,001,859

Compensation of key management personnel

The Company considers chief executive officer and chief operating officer as key management personnel.

	31 March 2019 (Unaudited)	31 December 2018 (Audited)	31 March 2018 (Unaudited)
Salaries and other benefits	611,346	4,175,393	1,043,226
End of service benefits	38,672	272,902	52,700
	650,018	4,448,295	1,095,926

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 2019
(Amounts in Saudi Riyals)

8. INVESTMENT

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. SFLCRC 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

9. INVESTMENTS IN FINANCE LEASE, NET

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

	31 March 2019 (Unaudited)	31 December 2018 (Audited)	31 March 2018 (Unaudited)
Minimum lease payments			
Performing leases	6,499,162,546	6,515,280,546	6,612,682,125
Non-performing leases	300,097,662	317,694,471	202,400,084
Investments in finance lease, gross	6,799,260,208	6,832,975,017	6,815,082,209
Less: Unearned finance income	(2,563,393,877)	(2,575,750,005)	(2,605,420,076)
Investments in finance lease before impairment	4,235,866,331	4,257,225,012	4,209,662,133
Less: Allowance for credit losses	(61,737,825)	(66,899,663)	(38,252,027)
Investments in finance lease, net	4,174,128,506	4,190,325,349	4,171,410,106
Less: Current portion	(264,327,423)	(262,693,122)	(212,367,919)
Less: Accrued finance lease receivable	(37,989,618)	(40,098,952)	(27,875,283)
Non-current portion	3,871,811,465	3,887,533,275	3,931,166,904

Investments represent net investment in finance lease. Total number of outstanding lease agreements as at 31 March 2019 is 6,619 (31 December 2018: 6,587, 31 March 2018: 6,369),

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.

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9. INVESTMENTS IN FINANCE LEASE, NET (CONTINUED)

9.1 The movement in the allowance for expected credit losses for investments as at 31 March 2019 is shown below:

	31 March 2019	31 December 2018	31 March 2018
Opening balance, as reported	66,899,663	12,203,770	12,203,770
Amount restated through opening retained earning upon adoption of IFRS 9 as at 1 January 2018	--	23,506,880	23,506,880
Opening balance, as restated (Reversal of) / provision for the period / year	66,899,663 (5,161,839)	35,710,650 31,189,013	35,710,650 2,541,377
Closing balance	61,737,824	66,899,663	38,252,027

9.2 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)
Allowance for credit losses	3,522,127,515	479,150,571	172,850,422	4,174,128,506

The credit quality of investments in finance lease as at 31 December 2018 is as follows:

	12 month ECL	Life time ECL not credit impaired	Life time ECL credit impaired	Total
Gross carrying amount	3,520,021,639	469,193,929	268,009,444	4,257,225,012
Allowance for expected credit losses	(1,573,096)	(10,168,698)	(55,157,869)	(66,899,663)
Net carrying amount	3,518,448,543	459,025,231	21,285,1575	4,190,325,349

The credit quality of investments in finance lease as at 31 March 2018 is as follows:

	12 month ECL	Life time ECL not credit impaired	Life time ECL credit impaired	Total
Gross carrying amount	3,524,962,705	561,341,200	123,358,228	4,209,662,133
Allowance for expected credit losses	(1,160,152)	(11,103,765)	(25,988,110)	(38,252,027)
Net carrying amount	3,523,802,553	550,237,435	97,370,118	4,171,410,106

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9. INVESTMENTS IN FINANCE LEASE, NET (CONTINUED)

9.3 Maturity profile of the lease payments is as follows:

	31 March 2019		31 December 2018	31 March 2018
<u>Year</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	585,845,042	283,528,000	302,317,042	302,792,074
Year two	534,602,915	263,400,623	271,202,292	270,292,349
Year three	521,300,939	242,930,805	278,370,134	277,119,582
Year four	506,433,070	222,135,592	284,297,478	282,973,398
Year five and later	4,651,078,242	1,551,398,857	3,099,679,385	3,124,047,609
	<u>6,799,260,208</u>	<u>2,563,393,877</u>	<u>4,235,866,331</u>	<u>4,257,225,012</u>
				<u>4,209,662,133</u>

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 2019, the carrying amount of gross non-performing leases amounted to SR 300.10 million (31 December 2018: SR 317.69 million and 31 March 2018: SR 200.40 million) and the fair value of identifiable real estate collateral held against them amount to SR 221.10 million (31 December 2018: 241.80 million and 31 March 2018: SR 155.76 million). The Company has a policy to value every year, all real estate properties leased out, by involving approved appraisers.

10. DEFERRED ORIGATION FEES

Deferred origination fees comprises 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.

11. RIGHT-OF-USE ASSET / LEASE LIABILITY

The Company has three lease contracts with different lessors for the lease of premises of the Head Office in Riyadh, Dammam Branch and Jeddah Branch. All contracts started during 2019.

Details on the three contracts are as follows:

	<u>Riyadh</u>	<u>Dammam</u>	<u>Jeddah</u>	<u>Total</u>
Undiscounted cash flows based on lease terms	5,646,270	1,115,730	2,500,000	9,262,000
Lease liability, 1 January 2019	5,125,399	--	2,164,738	7,290,137
Additions during the period	--	1,024,261	--	1,024,261
Payment of lease liability	(1,689,888)	(164,616)	(418,820)	(2,273,324)
Amortisation of discount	64,067	4,268	27,059	95,394
Lease liability, 31 March 2019	<u>3,499,578</u>	<u>863,913</u>	<u>1,772,977</u>	<u>6,136,468</u>
Right-of-use asset, 1 January 2019	5,125,399	--	2,164,738	7,290,137
Additions during the period		1,024,261		1,024,261
Accumulated depreciation	(427,117)	(28,450)	(108,237)	(563,804)
Right-of-use asset, 31 March 2019	<u>4,698,282</u>	<u>995,811</u>	<u>2,056,501</u>	<u>7,750,594</u>

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11. RIGHT-OF-USE ASSET / LEASE LIABILITY (CONTINUED)

The Company calculates the present value of the three contracts using the Company's incremental borrowing rate of 5% over the lease term, and amortises the right-of-use asset using the straight-line method over the lease term.

12. ACCOUNTS PAYABLE

On 8 April 2018, the Company has entered into an agreement with the Ministry of Housing ("MOH") where the Company purchases properties owned by MOH and enters into Ijara finance lease contracts with Saudi nationals as part of the government's initiative to provide support to Saudis who want to own houses. As part of the agreement, the Company will only pay the purchase price of the properties once the title deed of the properties were successfully transferred in the name of the Company.

As at 31 March 2019, the Company's accounts payable includes an amount due to the Ministry of Housing (MOH) amounted to SR 31.4 million (31 December 2018: 22.59). 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

13. ACCRUED EXPENSES AND OTHER LIABILITIES

	31 March 2019 <u>(Unaudited)</u>	31 December 2018 <u>(Audited)</u>	31 March 2018 <u>(Unaudited)</u>
Employees' related expenses	4,673,518	5,357,186	3,228,706
Accrued insurance	1,126,585	--	1,175,351
Accrued legal and consultation fees	397,105	296,255	343,250
Provision for maintenance on finance lease contracts	384,389	404,279	414,087
Accrued brokerage fees	--	33,840	330,152
Others	1,087,866	415,909	801,708
Total	<u>7,669,463</u>	<u>6,507,469</u>	<u>6,293,254</u>

14. PROVISION FOR ZAKAT AND INCOME TAX

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

	31 March 2018 <u>(Unaudited)</u>	31 December 2018 <u>(Audited)</u>	31 March 2018 <u>(Unaudited)</u>
Balance, beginning of the period / year	36,413,896	6,655,591	6,655,591
Provision for zakat and income tax for the period / year	3,254,931	36,413,896	3,673,255
Income tax adjustment	--	93,971	(89,684)
Payment during the period / year	<u>(5,073,365)</u>	<u>(6,749,562)</u>	<u>--</u>
Balance, end of the period / year	<u>34,595,462</u>	<u>36,413,896</u>	<u>10,239,162</u>

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14. PROVISION FOR ZAKAT AND INCOME TAX (CONTINUED)

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

The GAZT has issued the implementing rules and regulations under Ministerial Decree No. 2216 dated 7 Rajab 1440H (corresponding to 14 March 2019) in respect to the calculation of zakat of financing activities which was applied by the Company effective 1 January 2019. Based on this, the Company has recognised provision for zakat amounting to SR 2.13 million for the period ended 31 March 2019.

The Company has filed its zakat and income tax returns for the years from 2008 up to 2017. The Company received separate assessments from GAZT in respect of the years from 2008 to 2011 and years from 2012 to 2015 requiring additional zakat liability of SR 45.64 million and SR 80.59 million, respectively. The Company has filed appeals against these assessments.

In February 2019, the Company has received a proposed settlement agreement from the GAZT dated 6 February 2019 to settle certain amounts and clear the outstanding assessments relating to zakat for the financial years from 2014 to 2017 and provides a settlement calculation method for financial year 2018. The Company has accepted and signed this settlement agreement which was approved by the Board of Directors on 21 February 2019. In accordance with the terms of the agreement, an advance payment of SR 5.07 million representing 20% of the settlement amount was paid on 7 March 2019.

For the years 2008 to 2013, the Company continues to contest and awaits for the clarity from GAZT.

15. TAWARRUQ FINANCING FACILITIES

	31 March 2019 (Unaudited)	31 December 2018 (Audited)	31 March 2018 (Unaudited)
Current portion of facilities	643,677,938	643,677,938	303,360,421
Non-current portion of facilities	2,173,390,573	2,173,082,129	2,616,443,711
Total excluding financial charges	2,817,068,511	2,816,760,067	2,919,804,132
Accrued Tawarruq financing charges	5,054,051	7,478,094	2,692,410
Total including financial charges	2,822,122,562	2,824,238,161	2,922,496,542

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 2.33 billion 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 499.82 million of the finance amount. The facility bears a finance charge of 6 months SIBOR plus a profit margin of 1.95%.

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15. TAWARRUQ FINANCING FACILITIES (CONTINUED)

Loan from ANB is SR 2,218,101,796 (31 December 2018: SR 2,458,760,514, 31 March 2018: SR 2,458,760,514), GIB is SR 416,520,766 (31 December 2018: SR 276,236,028, 31 March 2018: SR 276,236,028) and from IFC is SR 187,500,000.

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

	31 March 2019	31 December 2018	31 March 2018
	(Unaudited)	(Audited)	(Unaudited)
ANB Tawarruq Facility	27,858,688	109,898,506	25,363,023
GIB Tawarruq Facility	5,292,471	12,674,976	2,918,536
IFC Tawarruq Facility	2,565,138	9,126,319	2,102,408
Total Finance Charge	35,716,297	131,699,801	30,293,967

16. END OF SERVICES BENEFITS

The Company operates an 'End of service benefit plan' for its staffs based on prevailing Saudi Labor Laws.

Defined Benefit Cost

	31 March 2019	31 December 2018	31 March 2018
	(Unaudited)	(Audited)	(Unaudited)
Current service cost	366,476	1,379,289	338,340
Interest cost on defined benefit obligation	103,303	258,741	64,685
Actuarial gain on obligation recognised in OCI during the year / period	(15,942)	(406,970)	(67,962)
Total defined benefit cost	453,837	1,231,060	335,063

Movements in the present value of defined benefit obligation

	31 March 2019	31 December 2018 (Audited)	31 March 2018
	(Unaudited)	(Audited)	(Unaudited)
Defined benefit obligation at the beginning of the year	8,590,316	7,728,097	7,728,097
Current service cost	366,476	1,379,289	338,340
Interest cost on defined benefit obligation	103,303	258,741	64,685
Benefits paid to outgoing employees	(265,212)	(368,841)	(24,494)
Actuarial gain on obligation	(15,942)	(406,970)	(67,962)
Defined benefit obligation at the end of the period	8,778,941	8,590,316	8,038,666

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

	31 March 2019	31 December 2018 (Audited)	31 March 2018
	(Unaudited)	(Audited)	(Unaudited)
Discount rate	4.0%	4.55%	3.6%
Expected rate of salary increase	5.0%	5.0%	3.6%
Normal retirement age	60	60	60

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16. END OF SERVICES BENEFITS (CONTINUED)

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

Maturity profile of the defined benefit obligation:

	<u>31 March</u> <u>2019</u> <u>(Unaudited)</u>	31 December <u>2018</u> <u>(Audited)</u>	31 March <u>2018</u> <u>(Unaudited)</u>
Weighted average duration of the defined benefit obligation	10.15	9.96	10.25
Distribution of timing of benefit payments			
Year 1	487,090	472,332	432,999
Year 2	943,808	542,942	497,101
Year 3	641,994	1,080,285	966,424
Year 4	701,153	685,393	643,866
Year 5	1,025,978	986,323	680,116
Year 6-10	6,795,427	7,749,453	7,409,979

Sensitivity analysis on significant actuarial assumptions:

	<u>31 March</u> <u>2019</u> <u>(Unaudited)</u>	31 December <u>2018</u> <u>(Audited)</u>	31 March <u>2018</u> <u>(Unaudited)</u>
Discount rate +0.5%	(446,467)	(428,735)	(827,067)
Discount rate -0.5%	446,467	428,735	827,067
Long term salary increase +0.5%	348,449	298,125	579,245
Long term salary increase -0.5%	(348,449)	(298,125)	(579,245)

17. 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>

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18. 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 were required to maintain a minimum general provision at 1% of their outstanding investments in finance lease exposure after deducting the non-performing portfolio. 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, a provision for expected credit losses was created from the retained earnings amounting to SR 32 million. Therefore, management decided to reclassify this excess provision of SR 40.60 million from general reserve back to retained earnings as shown in the statement of changes in equity.

19. 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 to compensate for the administrative services provided by the Company which is based on market rate. ANB has no recourse to the Company in relation to any default/loss on the outstanding balance of the investments in finance lease and the related insurance claims receivable, if any. Thus, all substantial risks and rewards associated with the sold portfolio were transferred to ANB at the time of sale in 2014 hence derecognized by the Company.

Fees earned from sold portfolio during the period ended 31 March 2019 amounted to SR 2.33 million (SR 2.66 million during the period ended 31 March 2018).

20. SELLING AND MARKETING EXPENSES

	For three months ended	
	March 31	
	2019	2018
	(Unaudited)	(Unaudited)
Insurance expenses	3,227,075	3,456,692
Origination expenses	1,062,053	953,649
Sales, collection and title transfer commission	891,639	682,387
Evaluation fees	356,450	522,700
Marketing expenses	336,616	108,741
Others	44,999	46,322
	<u>5,918,832</u>	<u>5,770,491</u>

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21. GENERAL AND ADMINISTRATIVE EXPENSES

	For three months ended March 31	
	2019 (Unaudite)	2018 (Unaudited)
Employees' salaries and other benefits	9,834,873	8,803,243
Depreciation and amortisation	1,254,957	684,766
Consultation fees	724,846	775,438
Repairs and maintenance	384,568	258,451
Telecommunication expenses	180,999	186,000
Recruitment-related expenses	114,679	37,567
Travel expenses	216,103	151,369
Amortisation of discount on lease liability	95,394	--
Rent expense	--	712,085
Others	561,812	484,756
	13,368,231	12,093,675

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, 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.

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.

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22. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

		31 March 2019 (Unaudited)			
	<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		--	--	4,169,905,467	4,169,905,467

		31 December 2018 (Audited)			
	<u>Carrying Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Net investments in finance leases	4,190,325,349		--	4,185,195,879	4,185,195,879
Investment	892,850	--	--	892,850	892,850
Total		--	--	4,186,088,729	4,186,088,729

		31 March 2018 (Unaudited)			
	<u>Carrying Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Net investments in finance leases	4,171,410,106		--	4,166,274,992	4,166,274,992
Investment	892,850	--	--	892,850	892,850
Total		--	--	4,167,167,842	4,167,167,842

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.

There had been no inter-level transfers during the period/year.

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:

	<u>31 March 2019</u>	<u>31 December 2018</u>	<u>31 March 2018</u>
Total capital ratio %	22.82%	23.12%	23.05%

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).

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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 date of financial statements.

25. SUBSEQUENT EVENTS

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

26. APPROVAL OF THE BOARD OF DIRECTORS

These financial statements were approved by the Board of Directors on 23 Sha'ban 1440H corresponding to 28 April 2019.