

**SAUDI HOME LOANS COMPANY**  
(A Saudi Closed Joint Stock Company)  
**INTERIM CONDENSED FINANCIAL STATEMENTS**  
(Unaudited)  
**For the nine months period ended 30 September 2019**  
Together with the  
**Independent auditors' review report**

**SAUDI HOME LOANS COMPANY**  
(A Saudi Closed Joint Stock Company)  
**INTERIM CONDENSED FINANCIAL STATEMENTS**  
**For the nine months period ended 30 September 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 30 September 2019 interim condensed financial statements of **Saudi Home Loans Company** ("the Company"), which comprises:

- the interim condensed statement of financial position as at 30 September 2019;
- the interim condensed statement of income for the three months and nine months period ended 30 September 2019;
- the interim condensed statement of comprehensive income for the three months and nine months period ended 30 September 2019;
- the interim condensed statement of changes in equity for the nine months period ended 30 September 2019;
- the interim condensed statement of cash flows for the nine months period ended 30 September 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 endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

## Scope of review

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

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 September 2019 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

29 Safar 1441H  
Corresponding to: 28 October 2019



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

		<b>30 September 2019 (Unaudited)</b>	31 December 2018 (Restated/ Audited)	30 September 2018 (Restated/ Unaudited)
	<u>Notes</u>			
<b><u>ASSETS</u></b>				
Cash and cash equivalents		<b>90,890,296</b>	79,643,334	127,680,737
Prepaid expenses and other assets, net	5	<b>48,570,649</b>	37,999,480	27,066,611
Advances to property owners	6	<b>14,920,279</b>	5,911,286	2,267,000
Due from related parties	7	<b>1,610,827</b>	897,247	929,978
Investment	8	<b>892,850</b>	892,850	892,850
Investments in finance lease, net	9	<b>4,196,839,394</b>	4,190,325,349	4,154,029,752
Deferred origination fees	10	<b>26,695,188</b>	29,810,236	30,496,788
Other real estate		<b>5,736,294</b>	2,829,685	2,829,685
Right-of-use asset	11	<b>6,974,819</b>	--	--
Property and equipment, net		<b>4,917,932</b>	4,065,263	4,356,201
Deferred tax assets	3, 15	<b>3,942,572</b>	4,068,676	3,951,527
Intangible assets, net		<b>2,848,931</b>	3,562,076	3,578,808
<b>Total assets</b>		<b><u>4,404,840,031</u></b>	<u>4,360,005,482</u>	<u>4,358,079,937</u>
<b><u>LIABILITIES AND EQUITY</u></b>				
<b>Liabilities</b>				
Accounts payable	12	<b>41,229,078</b>	30,937,901	15,373,239
Accrued expenses and other liabilities	13	<b>8,274,771</b>	6,507,469	7,262,825
Advance lease rentals		<b>9,528,152</b>	7,778,549	7,239,717
Lease liability	11	<b>6,341,328</b>	--	--
Provision for zakat and income tax	14	<b>39,977,677</b>	36,413,896	5,263,609
Tawarruq financing facilities	16	<b>2,798,903,711</b>	2,824,238,161	2,861,205,339
End of service benefits	17	<b>9,054,762</b>	8,590,316	8,126,592
<b>Total liabilities</b>		<b><u>2,913,309,479</u></b>	<u>2,914,466,292</u>	<u>2,904,471,321</u>
<b>Equity</b>				
Share capital	18	<b>1,000,000,000</b>	1,000,000,000	1,000,000,000
Statutory reserve	19	<b>100,113,691</b>	95,687,644	93,384,700
Actuarial gains on end of service benefits	17	<b>665,372</b>	406,970	472,703
Retained earnings	3	<b>390,751,489</b>	349,444,576	359,751,213
<b>Total equity</b>		<b><u>1,491,530,552</u></b>	<u>1,445,539,190</u>	<u>1,453,608,616</u>
<b>Total liabilities and equity</b>		<b><u>4,404,840,031</u></b>	<u>4,360,005,482</u>	<u>4,358,079,937</u>

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

**SAUDI HOME LOANS COMPANY**  
(A Saudi Closed Joint Stock Company)  
**INTERIM CONDENSED STATEMENT OF INCOME**  
For the three months and nine months period ended 30 September 2019  
(Amounts in Saudi Riyals)

	<i>Notes</i>	For the three months ended September 30		For the nine months ended September 30	
		2019 <b>(Unaudited)</b>	2018 (Restated/ Unaudited)	2019 <b>(Unaudited)</b>	2018 (Restated/ Unaudited)
Lease finance income		74,657,467	78,682,435	224,300,874	225,008,133
Service fees, net	20	2,157,149	2,503,530	6,734,229	7,740,683
Application and evaluation fee income		1,169,913	836,635	2,438,867	2,080,361
Other income		--	--	--	238,472
<b>Total operating income</b>		<b>77,984,529</b>	82,022,600	<b>233,473,970</b>	235,067,649
Financing charges	16	(33,770,794)	(34,215,842)	(105,882,036)	(96,343,624)
General and administrative expenses	22	(13,901,535)	(12,880,880)	(41,184,492)	(37,816,978)
Reversal of / (provision for) expected credit losses	5, 9	341,540	(11,765,218)	2,163,190	(30,502,973)
Selling and marketing expenses	21	(7,005,928)	(5,898,954)	(19,877,695)	(17,653,357)
<b>Net income before zakat and income tax</b>		<b>23,647,812</b>	17,261,706	<b>68,692,937</b>	52,750,717
Zakat and income tax expense for the current period	3, 14	(4,023,525)	(1,401,358)	(10,002,007)	(5,357,580)
Zakat for the prior periods	3, 14	--	--	(12,831,866)	--
Deferred tax (expense) / credit	3, 15	(57,857)	475,203	(126,104)	1,338,246
		<b>(4,081,382)</b>	(926,155)	<b>(22,959,977)</b>	(4,019,334)
<b>Net income for the period</b>		<b>19,566,430</b>	16,335,551	<b>45,732,960</b>	48,731,383

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

**SAUDI HOME LOANS COMPANY**  
(A Saudi Closed Joint Stock Company)  
**INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME**  
For the three months and nine months period ended 30 September 2019  
*(Amounts in Saudi Riyals)*

	<b>For the three months ended September 30</b>		<b>For the nine months ended September 30</b>	
	<b>2019</b>	2018	<b>2019</b>	2018
<b>Note</b>	<b>(Unaudited)</b>	<i>(Restated/ Unaudited)</i>	<b>(Unaudited)</b>	<i>(Restated/ Unaudited)</i>
<b>Net income for the period</b>	<b><u>19,566,430</u></b>	<u>16,335,551</u>	<b><u>45,732,960</u></b>	<u>48,731,383</u>
<b>Other comprehensive income</b>				
<i>Item that cannot be subsequently reclassified to the statement of income:</i>				
Actuarial gains on end of service benefits	17 <b><u>696,199</u></b>	<u>250,993</u>	<b><u>258,402</u></b>	<u>472,703</u>
<b>Total comprehensive income for the period</b>	<b><u>20,262,629</u></b>	<u>16,586,544</u>	<b><u>45,991,362</u></b>	<u>49,204,086</u>

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

**SAUDI HOME LOANS COMPANY**  
(A Saudi Closed Joint Stock Company)  
**INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY**  
For the nine months period ended 30 September 2019  
(Amounts in Saudi Riyals)

For the nine months period ended 30 September 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>
<b>Balance at beginning of the period</b>		<b>1,000,000,000</b>	<b>95,540,395</b>	<b>406,970</b>	<b>349,591,825</b>	<b>1,445,539,190</b>
Net income for the period		--	--	--	45,732,960	45,732,960
Actuarial gains on end of service benefits	17	--	--	258,402	--	258,402
<b>Total comprehensive income for the period</b>		<b>--</b>	<b>--</b>	<b>258,402</b>	<b>45,732,960</b>	<b>45,991,362</b>
Transfer to statutory reserve	19	--	4,573,296	--	(4,573,296)	--
<b>Balance at end of the period</b>		<b>1,000,000,000</b>	<b>100,113,691</b>	<b>665,372</b>	<b>390,751,489</b>	<b>1,491,530,552</b>

For the nine months period ended 30 September 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, as reported		1,000,000,000	88,109,628	40,604,666	--	305,676,175	1,434,390,469
Impact of adopting IFRS 9	3	--	--	--	--	(32,599,220)	(32,599,220)
Impact of adopting IAS 12	3	--	--	--	--	2,613,281	2,613,281
Balance at 1 January 2018, as restated		<b>1,000,000,000</b>	<b>88,109,628</b>	<b>40,604,666</b>	<b>--</b>	<b>275,690,236</b>	<b>1,404,404,530</b>
Net income for the period		--	--	--	--	48,731,383	48,731,383
Actuarial gains on end of service benefits	17	--	--	--	472,703	--	472,703
<b>Total comprehensive income for the period</b>		<b>--</b>	<b>--</b>	<b>--</b>	<b>472,703</b>	<b>48,731,383</b>	<b>49,204,086</b>
Transfer to statutory reserve	19	--	5,275,072	--	--	(5,275,072)	--
Reclassification of general reserve	19	--	--	(40,604,666)	--	40,604,666	--
<b>Balance at end of the period</b>		<b>1,000,000,000</b>	<b>93,384,700</b>	<b>--</b>	<b>472,703</b>	<b>359,751,213</b>	<b>1,453,608,616</b>

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

**SAUDI HOME LOANS COMPANY**  
(A Saudi Closed Joint Stock Company)  
**INTERIM CONDENSED STATEMENT OF CASH FLOWS**  
**For the nine months period ended 30 September 2019**  
(Amounts in Saudi Riyals)

	<b>Notes</b>	<b>2019</b>	<b>2018</b>
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>OPERATING ACTIVITIES</b>			
Net income before zakat and income tax		<b>68,692,937</b>	52,750,717
<i>Adjustments to reconcile net income before zakat and income tax to net cash generated from operating activities:</i>			
Depreciation and amortisation	22	<b>3,937,472</b>	2,068,429
Amortisation of deferred origination fees		<b>3,170,090</b>	2,795,064
(Reversal of) / provision for expected credit losses	5, 9	<b>(2,163,190)</b>	30,502,973
Provision for end of service benefits	17	<b>1,409,335</b>	1,228,523
Amortisation of discount on lease liability	22	<b>313,855</b>	--
<i>Net (increase) / decrease in operating assets:</i>			
Prepaid expenses and other assets, net		<b>(11,010,310)</b>	(4,007,928)
Advances to property owners		<b>(9,008,993)</b>	9,489,000
Due from related parties		<b>(713,580)</b>	101,380
Investments in finance lease, net		<b>(6,693,430)</b>	(27,376,714)
<i>Net increase / (decrease) in operating liabilities:</i>			
Accounts payable		<b>10,291,177</b>	13,617,423
Accrued expenses and other liabilities		<b>1,767,302</b>	1,421,396
Advance lease rentals		<b>1,749,603</b>	(4,364,512)
<b>Net cash from operations</b>		<b>61,742,268</b>	78,225,751
Zakat and income tax paid	14	<b>(19,270,092)</b>	(6,749,562)
End of service benefits paid	17	<b>(686,487)</b>	(357,326)
Deferred origination fees paid		<b>(55,042)</b>	(854,535)
<b>Net cash generated from operating activities</b>		<b>41,730,647</b>	70,264,328
<b>INVESTING ACTIVITIES</b>			
Purchase of property and equipment		<b>(1,984,879)</b>	(580,891)
Purchase of intangible assets		<b>(211,789)</b>	(193,896)
<b>Net cash used in investing activities</b>		<b>(2,196,668)</b>	(774,787)
<b>FINANCING ACTIVITIES</b>			
Additions in Tawarruq financing facilities		<b>311,834,325</b>	128,769,995
Repayment of Tawarruq financing facilities		<b>(337,168,775)</b>	(95,665,277)
Payment of lease liability		<b>(2,952,567)</b>	--
<b>Net cash (used in) / generated from financing activities</b>		<b>(28,287,017)</b>	33,104,718
<b>Net increase in cash and cash equivalents</b>		<b>11,246,962</b>	102,594,259
Cash and cash equivalents at beginning of the period		<b>79,643,334</b>	25,086,478
<b>Cash and cash equivalents at end of the period</b>		<b>90,890,296</b>	127,680,737
<b>Supplemental cash information</b>			
Lease finance income received		<b>221,177,314</b>	216,535,493
Financing charges paid		<b>108,600,796</b>	96,242,375
<b>Supplemental non-cash information</b>			
Capital work in progress transferred to intangible assets and property and equipment		<b>598,698</b>	326,790
Investments in finance lease transferred to other real estate		<b>2,906,609</b>	1,750,000
Right-of-use asset	11	<b>6,974,819</b>	--
Lease liability	11	<b>6,341,328</b>	--

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



**SAUDI HOME LOANS COMPANY**  
(A Saudi Closed Joint Stock Company)  
**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**  
**For the nine months period ended 30 September 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 and nine months periods ended 30 September 2019 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 and year ended 30 September 2018 and 31 December 2018, respectively, were prepared in compliance with IAS 34 and the International Financial Reporting Standards ("IFRS") respectively, 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 ("IASB") 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 3.2 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.

**SAUDI HOME LOANS COMPANY**  
(A Saudi Closed Joint Stock Company)  
**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**  
**For the nine months period ended 30 September 2019**  
(Amounts in Saudi Riyals)

**2. BASIS OF PREPARATION (CONTINUED)**

*c) Functional and presentation currency*

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

**3. 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 2019.

**SAUDI HOME LOANS COMPANY**  
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(Amounts in Saudi Riyals)

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

**3.2 Accounting for zakat and income tax**

As mentioned in note 2(a) to the interim condensed financial statements, the basis of preparation has been changed for the period ended 30 September 2019 as a result of the issuance of latest instructions from SAMA dated 17 July 2019. Previously, zakat and income tax were recognised in the statement of changes in equity as per SAMA circular no. 38100074519 dated 11 April 2017. With the latest instructions issued by SAMA dated 17 July 2019, 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 nine months period ended 30 September 2018:

Financial statement impacted	Account	Before the restatement for the nine months period ended 30 September 2018:	Effect of restatement	As restated as at and for the nine months period ended 30 September 2018:
Statement of changes in equity	Provision for zakat and income tax (retained earnings)	5,357,580	(5,357,580)	--
Statement of income	Zakat and income tax expense	--	(4,019,334)	(4,019,334)
Statement of financial position	Deferred tax assets	--	3,951,527	3,951,527

As at and for the three month period ended 30 September 2018:

Financial statement impacted	Account	Before the restatement for the three months period ended 30 September 2018:	Effect of restatement	As restated as at and for the three months period ended 30 September 2018:
Statement of changes in equity	Provision for zakat and income tax (retained earnings)	1,401,358	(1,401,358)	--
Statement of income	Zakat and income tax expense	--	(926,155)	(926,155)
Statement of financial position	Deferred tax assets	--	3,951,527	3,951,527

As at 31 December 2018:

Financial statement impacted	Account	Before the restatement as at 31 December 2018	Effect of restatement	As restated as at 31 December 2018:
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

**SAUDI HOME LOANS COMPANY**  
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**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**  
**For the nine months period ended 30 September 2019**  
(Amounts in Saudi Riyals)

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

**3.2 Accounting for zakat and income tax (continued)**

As at 1 January 2018:

Financial statement impacted	Account	Before the restatement as at 1 January 2018:	Effect of restatement	As restated as at 1 January 2018:
Statement of financial position	Deferred tax assets	-	2,613,281	2,613,281
Statement of financial position	Retained earnings	273,076,955	2,613,281	275,690,236

The change has had no impact on the statement of cash flows for the period ended 30 September 2018.

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 30 September 2018.

**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.

**4.1 Accounting for leases**

**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.

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**4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**4.1 *Accounting for leases (continued)***

**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.

**4.2 *Accounting for zakat and income tax***

**Income tax**

The income tax expense or credit for the period is the tax payable on the current period's taxable income, based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Adjustments arising from the final income tax assessments are recorded in the period in which such assessments are made. The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted for the changes in deferred tax assets and liabilities attributable to the temporary differences and to the unused tax losses.

**IFRIC Interpretation 23 Uncertainty over Income Tax Treatment (“the Interpretation”)**

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Company has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty needs to be followed.

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**4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**4.2 *Accounting for zakat and income tax (continued)***

**Deferred tax**

Deferred tax is provided using the liability method on temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for the taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amounts of assets and liabilities using the tax rates enacted or substantively enacted at the reporting date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available and the credits can be utilized. Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefits will be realised.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised

**Zakat**

The Group is subject to Zakat in accordance with the regulations of the General Authority of Zakat and Income Tax (“GAZT”). Zakat expense is charged to the profit or loss. Zakat is not accounted for as income tax and as such no deferred tax is calculated relating to zakat.

**5. PREPAID EXPENSES AND OTHER ASSETS, NET**

Prepaid expenses and other assets comprised of the following:

	<b>30 September 2019 <u>(Unaudited)</u></b>	31 December 2018 <u>(Audited)</u>	30 September 2018 <u>(Unaudited)</u>
Insurance claims receivable on decess-case leases	<b>30,845,640</b>	25,171,311	26,665,973
VAT receivable	<b>20,169,055</b>	8,366,174	2,606,031
Advance tax	<b>2,522,248</b>	3,460,872	2,307,248
Prepaid insurance	<b>1,070,415</b>	3,686,186	375,596
Prepaid financing facility interest (IFC)	<b>1,891,450</b>	4,662,866	1,986,247
Prepaid financing facility fees (IFC)	<b>1,488,124</b>	1,723,096	1,801,420
Prepaid financing facility fees (GIB)	<b>1,031,250</b>	1,537,500	1,706,250
Legal claim	<b>1,018,356</b>	1,018,356	1,018,356
Prepaid software maintenance	<b>508,827</b>	843,621	310,862
Employees’ advances and receivables	<b>197,157</b>	144,199	131,008
Others	<b>1,611,783</b>	604,922	1,057,914
	<b>62,354,305</b>	51,219,103	39,966,905
Allowance for provision for:			
- ECL on insurance claims receivable on non-performing decess-case leases	<b>(12,289,567)</b>	(12,201,267)	(11,881,938)
- Legal claim	<b>(1,494,089)</b>	(1,018,356)	(1,018,356)
	<b>48,570,649</b>	37,999,480	27,066,611

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**5. PREPAID EXPENSES AND OTHER ASSETS, NET (CONTINUED)**

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 and therefore is recognised as an advance in the financial statements.

**7. RELATED PARTY TRANSACTIONS**

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

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

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

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

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

	<b>30 September 2019 <u>(Unaudited)</u></b>	31 December 2018 <u>(Audited)</u>	30 September 2018 <u>(Unaudited)</u>
Loan obtained from a shareholder (ANB)	<b>25,000,000</b>	2,216,981,529	125,000,000
Loan obtained from a shareholder (IFC)	--	187,500,000	--
Tawaruq financing charges (ANB)	<b>82,052,489</b>	109,898,506	80,482,858
Tawaruq financing charges (IFC)	<b>7,763,452</b>	8,794,273	6,670,210
Takaful protection coverage (ANB Metlife)	--	8,236,857	9,411,921
Service fees, net	<b>6,734,229</b>	10,156,303	7,740,683
Prepaid financing facility fees (IFC)	--	1,723,096	1,801,420
Prepaid interest expense IFC	<b>1,488,124</b>	4,662,866	--
Lease contract with an affiliate	<b>1,882,090</b>	1,882,090	941,046
Deferred origination fees paid (Note 10)	<b>55,043</b>	1,119,091	1,388,041

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**7. RELATED PARTY TRANSACTIONS (CONTINUED)**

Due from related parties, is comprised of the following:

	<b>30 September 2019 (Unaudited)</b>	31 December 2018 (Audited)	30 September 2018 (Unaudited)
Arab National Bank	<u>1,610,827</u>	<u>897,247</u>	<u>929,978</u>
	<b><u>1,610,827</u></b>	<b><u>897,247</u></b>	<b><u>929,978</u></b>

**Compensation of key management personnel**

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

	<b>30 September 2019 (Unaudited)</b>	31 December 2018 (Audited)	30 September 2018 (Unaudited)
Salaries and other benefits	<b>2,019,243</b>	4,175,393	3,129,680
End of service benefits	<u>124,427</u>	<u>272,902</u>	<u>158,098</u>
	<b><u>2,143,670</u></b>	<b><u>4,448,295</u></b>	<b><u>3,287,778</u></b>

**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.



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**9. INVESTMENTS IN FINANCE LEASE, NET**

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

	<b>30 September 2019 (Unaudited)</b>	31 December 2018 (Audited)	30 September 2018 (Unaudited)
Minimum lease payments			
Performing leases	<b>6,514,636,719</b>	6,515,280,546	6,428,051,247
Non-performing leases	<b>304,922,070</b>	317,694,471	351,841,628
<b>Investments in finance lease, gross</b>	<b>6,819,558,789</b>	6,832,975,017	6,779,892,875
Less: Unearned finance income	<b>(2,558,546,954)</b>	(2,575,750,005)	(2,560,330,123)
<b>Investments in finance lease before impairment</b>	<b>4,261,011,835</b>	4,257,225,012	4,219,562,752
Less: Allowance for credit losses	<b>(64,172,441)</b>	(66,899,663)	(65,533,000)
<b>Investments in finance lease, net</b>	<b>4,196,839,394</b>	4,190,325,349	4,154,029,752
<b>Less: Current portion</b>	<b>(269,109,866)</b>	(262,693,122)	(196,973,592)
<b>Less: Accrued finance lease receivable</b>	<b>(43,222,513)</b>	(40,098,952)	(38,755,563)
<b>Non-current portion</b>	<b>3,884,507,015</b>	3,887,533,275	3,918,300,597

Investments represent net investment in finance lease. Total number of outstanding lease agreements as at 30 September 2019 is 6,756 (31 December 2018: 6,587; 30 September 2018: 6,486).

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.

9.1 The movement in the allowance for expected credit losses for investments as at 30 September 2019 is shown below:

	<b>30 September 2019 (Unaudited)</b>	31 December 2018 (Audited)	30 September 2018 (Unaudited)
Opening balance, as reported	<b>66,899,663</b>	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	<b>66,899,663</b>	35,710,650	35,710,650
(Reversal of) / provision for the period / year	<b>(2,727,222)</b>	31,189,013	29,822,350
<b>Closing balance</b>	<b>64,172,441</b>	66,899,663	65,533,000

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**9. INVESTMENTS IN FINANCE LEASE, NET (CONTINUED)**

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

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

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

	<b>12 month ECL</b>	<b>Life time ECL not credit impaired</b>	<b>Life time ECL credit impaired</b>	<b>Total</b>
Gross carrying amount	3,520,021,639	469,193,929	268,009,444	4,257,225,012
Allowance for expected credit losses	<u>(1,573,096)</u>	<u>(10,168,698)</u>	<u>(55,157,869)</u>	<u>(66,899,663)</u>
Net carrying amount	<u><u>3,518,448,543</u></u>	<u><u>459,025,231</u></u>	<u><u>21,285,575</u></u>	<u><u>4,190,325,349</u></u>

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

	<b>12 month ECL</b>	<b>Life time ECL not credit impaired</b>	<b>Life time ECL credit impaired</b>	<b>Total</b>
Gross carrying amount	3,481,682,976	544,446,186	193,433,590	4,219,562,752
Allowance for expected credit losses	<u>(1,539,406)</u>	<u>(9,533,191)</u>	<u>(54,460,403)</u>	<u>(65,533,000)</u>
Net carrying amount	<u><u>3,480,143,570</u></u>	<u><u>534,912,995</u></u>	<u><u>138,973,187</u></u>	<u><u>4,154,029,752</u></u>

9.3 Maturity profile of the lease payments is as follows:

	<b>30 September 2019</b>		<b>31 December 2018</b>		<b>30 September 2018</b>
<b>Year</b>	<b>Minimum lease payments</b>	<b>Unearned finance income</b>	<b>Investments in finance lease</b>	<b>Investments in finance lease</b>	<b>Investments in finance lease</b>
Within one year	604,610,182	292,277,803	312,332,379	302,792,074	301,262,155
Year two	548,327,432	271,933,910	276,393,522	270,292,349	271,232,482
Year three	535,250,395	251,102,097	284,148,298	277,119,582	277,371,139
Year four	518,867,746	229,946,159	288,921,587	282,973,398	283,088,791
Year five and later	4,612,503,034	1,513,286,985	3,099,216,049	3,124,047,609	3,086,608,185
	<u><u>6,819,558,789</u></u>	<u><u>2,558,546,954</u></u>	<u><u>4,261,011,835</u></u>	<u><u>4,257,225,012</u></u>	<u><u>4,219,562,752</u></u>

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**9. INVESTMENTS IN FINANCE LEASE, NET (CONTINUED)**

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

<b>Loss Allowance</b>	<b>12 Month ECL</b>	<b>Lifetime ECL</b>		<b>Total</b>
		<b>Not credit impaired</b>	<b>Credit impaired</b>	
Opening balance at 1 January 2019	1,573,096	10,168,698	55,157,869	66,899,663
Transfer to 12 Month ECL	138,350	(122,202)	(16,148)	--
Transfer to Lifetime ECL (not credit impaired)	(69,433)	4,346,948	(4,277,515)	--
Transfer to Lifetime ECL (credit impaired)	--	1,556,065	(1,556,065)	--
Net change for the period	1,249,480	(3,840,118)	(136,584)	(2,727,222)
Closing balance as of 30 September 2019	<b>2,891,493</b>	<b>12,109,391</b>	<b>49,171,557</b>	<b>64,172,441</b>

Expected credit loss allowance on investments in finance lease as at 31 December 2018 is as follows:

Loss allowance	12 Month ECL	Lifetime ECL		Total
		Not credit impaired	Credit impaired	
Opening balance at 1 January 2018	1,585,378	10,343,110	23,782,162	35,710,650
Transfer to 12 Month ECL	39,814	(36,652)	(3,161)	--
Transfer to Lifetime ECL (not credit impaired)	(99,922)	297,686	(197,764)	--
Transfer to Lifetime ECL (credit impaired)	(26,877)	(2,234,713)	2,261,589	--
Net change for the period	74,703	1,799,267	29,315,043	31,189,013
Closing balance as of 31 December 2018	<b>1,573,096</b>	<b>10,168,698</b>	<b>55,157,869</b>	<b>66,899,663</b>

Expected credit loss allowance on investments in finance lease as at 30 September 2018 is as follows:

Loss allowance	12 Month ECL	Lifetime ECL		Total
		Not credit impaired	Credit impaired	
Opening balance at 1 January 2018	1,585,378	10,343,110	23,782,162	35,710,650
Transfer to 12 Month ECL	31,335	(31,249)	(86)	--
Transfer to Lifetime ECL (not credit impaired)	(106,863)	186,552	(79,689)	--
Transfer to Lifetime ECL (credit impaired)	(26,576)	(2,386,772)	2,413,348	--
Net change for the period	56,132	1,421,550	28,344,668	29,822,350
Closing balance as of 30 September 2018	<b>1,539,406</b>	<b>9,533,191</b>	<b>54,460,403</b>	<b>65,533,000</b>

**Collateral**

The Company in the ordinary course of lending activities holds collateral as security to mitigate credit risk. These collaterals are primarily title deeds in the name of the Company, for properties that have been leased out to the portfolio of investments in finance lease.

As at 30 September 2019, the carrying amount of gross non-performing leases amounted to SR 308.15 million (31 December 2018: SR 317.69 million and 30 September 2018: SR 379.96 million) and the fair value of identifiable real estate collateral held against them amount to SR 231.10 million (31 December 2018: 241.80 million and 30 September 2018: SR 325.43 million). The Company has a policy to value every year all real estate properties leased out by involving approved appraisers.

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**10. DEFERRED ORIGINATION 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>
<b>Undiscounted cash flows based on lease terms</b>	<b>6,241,972</b>	<b>1,115,730</b>	<b>2,500,000</b>	<b>9,857,702</b>
Lease liability, 1 January 2019	5,125,399	--	2,164,738	7,290,137
Additions during the period	540,747	1,024,262	--	1,565,009
Payment of lease liability	(2,080,657)	(371,910)	(500,000)	(2,952,567)
Reduction of prepaid interest	79,837	17,999	27,058	124,894
Amortisation of discount	203,469	29,207	81,179	313,855
<b>Lease liability, 30 September 2019</b>	<b>3,868,795</b>	<b>699,558</b>	<b>1,772,975</b>	<b>6,341,328</b>
Right-of-use asset, 1 January 2019	5,125,399	--	2,164,738	7,290,137
Additions during the period	540,747	1,024,262	--	1,565,009
Accumulated depreciation	(1,356,453)	(199,163)	(324,711)	(1,880,327)
<b>Right-of-use asset, 30 September 2019</b>	<b>4,309,693</b>	<b>825,099</b>	<b>1,840,027</b>	<b>6,974,819</b>

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**

As at 30 September 2019, the Company's accounts payable includes an amount due to the Ministry of Housing (MOH) which amounted to SR 35.3 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. 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 were successfully transferred in the name of the Company.

**13. ACCRUED EXPENSES AND OTHER LIABILITIES**

	<b>30 September 2019 (Unaudited)</b>	31 December 2018 (Audited)	30 September 2018 (Unaudited)
Employees' related expenses	5,933,075	5,357,186	5,189,962
Accrued insurance	1,124,871	--	1,129,200
Accrued legal and consultation fees	431,205	296,255	283,905
Provision for maintenance on finance lease contracts	275,910	404,279	444,800
Accrued origination fees	--	33,840	84,330
Others	509,710	415,909	130,628
<b>Total</b>	<b>8,274,771</b>	<b>6,507,469</b>	<b>7,262,825</b>

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**14. PROVISION FOR ZAKAT AND INCOME TAX**

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

	<b>30 September 2019 (Unaudited)</b>	31 December 2018 (Audited)	30 September 2018 (Unaudited)
Balance, beginning of the period / year	<b>36,413,896</b>	6,655,591	6,655,591
Zakat and income tax expense for the current period	<b>10,002,007</b>	11,047,069	5,357,580
Zakat for the prior periods	<b>12,831,866</b>	25,366,827	--
Income tax adjustment	--	93,971	--
Payment during the period / year	<b>(19,270,092)</b>	(6,749,562)	(6,749,562)
Balance, end of the period / year	<b><u>39,977,677</u></b>	<u>36,413,896</u>	<u>5,263,609</u>

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

The 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 and income tax expense amounting to SR 5.98 million for the period ended 30 September 2019.

In February 2019, the Company has received a settlement agreement from the GAZT to settle 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 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.

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 amounting to SR 12.8 million. The Company accepted this settlement and accordingly additional provision amount for zakat was recognised.

**15. DEFERRED TAX**

	<b>30 September 2019 (Unaudited)</b>	31 December 2018 (Restated)	30 September 2018 (Unaudited)
Balance at the beginning of the period / year	4,068,676	2,613,281	2,613,281
Movement for the period	(126,104)	1,455,395	1,338,246
Balance at end of the period / year	<b><u>3,942,572</u></b>	<u>4,068,676</u>	<u>3,951,527</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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**16. TAWARRUQ FINANCING FACILITIES**

	<b>30 September 2019 (Unaudited)</b>	<b>31 December 2018 (Audited)</b>	<b>30 September 2018 (Unaudited)</b>
Current portion of facilities	420,241,891	643,677,938	827,047,400
Non-current portion of facilities	2,373,902,486	2,173,082,129	2,030,387,944
Total excluding financial charges	2,794,144,377	2,816,760,067	2,857,435,344
Accrued Tawarruq financing charges	4,759,334	7,478,094	3,769,995
Total including financial charges	<u>2,798,903,711</u>	<u>2,824,238,161</u>	<u>2,861,205,339</u>

In July 2019, the Company signed a new facility agreement with NCB bank for amount of SR 400 million with similar terms and conditions. Of the facility amount, SR 282 million was utilised. Also, the company signed a facility agreement with Saudi refinance company "SRC" to finance the origination of fixed rate Ijarah contracts.

**17. END OF SERVICES BENEFITS**

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

<b>Defined benefit cost</b>	<b>For three months ended September</b>		<b>For nine months ended September 30</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Current service cost	366,475	344,822	1,099,426	1,034,467
Interest cost	103,303	64,686	309,909	194,056
Actuarial losses / (gains) recognised in OCI during the period	(696,199)	(250,993)	(258,402)	(472,703)
Total defined benefit cost	<u>(226,421)</u>	<u>158,515</u>	<u>1,150,993</u>	<u>755,820</u>

**Movements in the present value of defined benefit obligation**

	<b>30 September 2019 (Unaudited)</b>	<b>31 December 2018 (Audited)</b>	<b>30 September 2018 (Unaudited)</b>
Defined benefit obligation at the beginning of the period / year	8,590,316	7,728,097	7,728,097
Current service cost	1,099,426	1,379,289	1,034,468
Interest cost on defined benefit obligation	309,909	258,741	194,056
Benefits paid to outgoing employees	(686,487)	(368,841)	(357,326)
Actuarial gain on obligation	(258,402)	(406,970)	(472,703)
Defined benefit obligation at the end of the period / year	<u>9,054,762</u>	<u>8,590,316</u>	<u>8,126,592</u>

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**18. 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
<b>Total</b>	<b><u>100,000,000</u></b>	<b><u>1,000,000,000</u></b>

**19. STATUTORY AND GENERAL RESERVES**

Upon the adoption of IFRS 9 on 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 the excess provision of SR 40.60 million from general reserve back to retained earnings as shown in the statement of changes in equity.

**20. 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 30 September 2019 amounted to SR 6.73 million (SR 7.74 million during the period ended 30 September 2018).

**21. SELLING AND MARKETING EXPENSES**

	<u>For three months ended</u>		<u>For nine months ended</u>	
	<u>September</u>		<u>September 30</u>	
	<u>2019</u>	<u>2018</u>	2019	2018
	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>
Insurance expenses	<b>3,242,831</b>	3,420,084	<b>9,708,099</b>	10,349,719
Origination expenses	<b>1,089,127</b>	926,581	<b>3,170,091</b>	2,795,062
Sales, collection and title transfer commission	<b>1,045,934</b>	527,632	<b>3,101,357</b>	1,888,475
Marketing expenses	<b>969,084</b>	418,307	<b>2,327,199</b>	919,594
Evaluation fees	<b>607,950</b>	555,950	<b>1,423,950</b>	1,546,050
Others	<b>51,002</b>	50,400	<b>146,999</b>	154,457
	<b><u>7,005,928</u></b>	<u>5,898,954</u>	<b><u>19,877,695</u></b>	<u>17,653,357</u>

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**22. GENERAL AND ADMINISTRATIVE EXPENSES**

	For three months ended September 30		For nine months ended September 30	
	2019 (Unaudited)	2018 (Unaudited)	2019 (Unaudited)	2018 (Unaudited)
Employees' salaries and other benefits	10,510,706	9,601,690	30,636,012	27,418,367
Depreciation and amortisation	1,371,477	692,228	3,937,472	2,068,429
Consultation fees	401,582	561,529	1,984,468	1,929,685
Repairs and maintenance	489,018	407,887	1,363,271	1,148,831
Telecommunication expenses	171,059	207,525	523,058	585,525
Travel expenses	145,361	50,146	540,834	469,726
Amortisation of discount on lease liability	114,531	--	313,855	--
Recruitment-related expenses	36,811	68,884	122,351	278,685
Rent expense	--	680,661	--	2,073,407
Others	660,990	610,330	1,763,171	1,844,323
	<u>13,901,535</u>	<u>12,880,880</u>	<u>41,184,492</u>	<u>37,816,978</u>

**23. 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. 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.



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**23. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

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

	<u>Carrying value</u>	<b>30 September 2019 (Unaudited)</b>			<u>Total</u>
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Net investments in finance leases	4,188,725,364	--	--	4,183,585,886	4,183,585,886
Investment	892,850	--	--	892,850	892,850
Total		--	--	4,184,478,736	4,184,478,736

  

	<u>Carrying value</u>	31 December 2018 (Audited)			<u>Total</u>
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</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

  

	<u>Carrying value</u>	30 September 2018 (Unaudited)			<u>Total</u>
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Net investments in finance leases	4,154,029,752		--	4,148,869,544	4,148,869,544
Investment	892,850	--	--	892,850	892,850
Total		--	--	4,149,762,394	4,149,762,394

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.

**24. 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:

	<b>30 September 2019</b>	31 December 2018	30 September 2018
Total capital ratio %	22.87%	23.12%	23.29%

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).

**25. 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 assessments raised for previous years from 2008 to 2011. However, as mentioned in note 14 to the financial statements, the Company has now reached a final settlement with GAZT for all outstanding zakat assessments. The Company in its letter to GAZT dated 7 July 2019 has requested to cancel the letter of guarantee in favour of the Company.

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**26. SUBSEQUENT EVENTS**

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

**27. APPROVAL OF THE BOARD OF DIRECTORS**

These financial statements were approved by the Board of Directors on 28 Safar 1441H corresponding to 27 October 2019.