

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
FINANCIAL STATEMENTS
For the year ended 31 December 2018
Together with the
Independent auditors' report

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
For the year ended 31 December 2018

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License No. 46/11/323 issued 11/3/1992

Independent auditors' report

To the shareholders of Saudi Home Loans Company

Opinion

We have audited the financial statements of Saudi Home Loans Company ("the Company"), which comprise the statement of financial position as at 31 December 2018, the statements of income, comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and the notes to the financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards ("IFRS") as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax.

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing ("ISA") that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the financial statements* section of this report. We are independent of the Company in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS as modified by SAMA for the accounting of zakat and income tax, the applicable requirements of the Regulations for Companies, the Company's By-laws and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. 'Reasonable assurance' is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



Independent auditors' report

To the shareholders of Saudi Home Loans Company (continued)

Auditors' responsibilities for the audit of the financial statements (continued)

As part of an audit in accordance with ISA that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit of the Company.

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

Abdullah Hamad Al Fozan
License No: 348

26 Jumada Al-Thani 1440H
Corresponding to: 3 March 2019



SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF FINANCIAL POSITION
As at 31 December 2018
(Amounts in Saudi Riyals)

	<u>Notes</u>	31 December 2018	31 December 2017 (Restated)
<u>ASSETS</u>			
Cash and cash equivalents	4	79,643,334	25,086,478
Prepaid expenses and other assets, net	5	37,999,480	32,831,646
Advances to property owners	6	5,911,286	11,756,000
Due from related parties	7	897,247	1,031,358
Investment	8	892,850	892,850
Investments in finance lease, net	9	4,190,325,349	4,181,732,268
Deferred origination fees	10	29,810,236	32,437,315
Other real estate	11	2,829,685	1,079,685
Property and equipment, net	13	4,065,263	4,599,050
Intangible assets, net	12	3,562,076	4,629,601
Total assets		<u>4,355,936,806</u>	<u>4,296,076,251</u>
<u>LIABILITIES AND EQUITY</u>			
Liabilities			
Accounts payable	14	30,937,901	1,755,816
Accrued expenses and other liabilities	15	6,507,469	5,841,429
Advance lease rentals		7,778,549	11,604,229
Provision for zakat and income tax	16	36,413,896	6,655,591
Tawarruq financing facilities	17	2,824,238,161	2,828,100,620
End of service benefits	18, 31	8,590,316	7,728,097
Total liabilities		<u>2,914,466,292</u>	<u>2,861,685,782</u>
Equity			
Share capital	19	1,000,000,000	1,000,000,000
Statutory reserve	20	95,687,644	88,109,628
General reserve	20	--	40,604,666
Actuarial gains on end of service benefits	18	406,970	--
Retained earnings	31	345,375,900	305,676,175
Total equity		<u>1,441,470,514</u>	<u>1,434,390,469</u>
Total liabilities and equity		<u>4,355,936,806</u>	<u>4,296,076,251</u>

The accompanying notes from (1) to (32) are an integral part of these financial statements.

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF INCOME
For the year ended 31 December 2018
(Amounts in Saudi Riyals)

	<u>Notes</u>	<u>2018</u>	<u>2017</u> (Restated)
Lease finance income		302,058,066	272,573,760
Service fees, net	21	10,156,303	11,566,637
Application and evaluation fee income		2,931,848	4,407,292
Other income		<u>238,472</u>	<u>1,082,054</u>
Total operating income		<u>315,384,689</u>	<u>289,629,743</u>
Financing charges	17	(131,699,801)	(119,338,468)
General and administrative expenses	23, 31	(50,692,295)	(45,019,696)
Provision for expected credit losses	5, 9	(32,188,965)	(1,461,056)
Selling and marketing expenses	22	<u>(25,023,466)</u>	<u>(24,121,888)</u>
Net income for the period		<u>75,780,162</u>	<u>99,688,635</u>

The accompanying notes from (1) to (32) are an integral part of these financial statements.

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2018
(Amounts in Saudi Riyals)

	<u>Note</u>	<u>2018</u>	<u>2017</u> (Restated)
Net income for the period		75,780,162	99,688,635
Other comprehensive income			
<i>Item that cannot be reclassified to statement of income</i>			
Actuarial gains on end of service benefits	18	<u>406,970</u>	<u>--</u>
Total comprehensive income for the period		<u>76,187,132</u>	<u>99,688,635</u>

The accompanying notes from (1) to (32) are an integral part of these financial statements.

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended 31 December 2018
(Amounts in Saudi Riyals)

		For the year ended 31 December 2018					
Notes	Share capital	Statutory reserve	General Reserve	Actuarial gains on end of service benefits	Retained earnings	Total Equity	
	1,000,000,000	88,109,628	40,604,666	--	305,676,175	1,434,390,469	
3a	1,000,000,000	88,109,628	40,604,666	--	(32,599,220)	(32,599,220)	
	1,000,000,000	88,109,628	40,604,666	--	273,076,955	1,401,791,249	
	--	--	--	--	--	--	
18	--	--	--	406,970	--	75,780,162	
	--	--	--	406,970	--	406,970	
3iii, 20	--	--	(40,604,666)	--	40,604,666	--	
20	--	7,578,016	--	--	(7,578,016)	--	
16	--	--	--	--	(36,507,867)	(36,507,867)	
	1,000,000,000	95,687,644	--	406,970	345,375,900	1,441,470,514	
For the year ended 31 December 2017							
	800,000,000	58,101,786	50,607,280	--	434,145,225	1,342,854,291	
31	800,000,000	58,101,786	50,607,280	--	(1,495,901)	(1,495,901)	
	200,000,000	58,101,786	50,607,280	--	432,649,324	1,341,358,390	
	200,000,000	--	--	--	(200,000,000)	--	
20	--	--	--	--	99,688,635	99,688,635	
16	--	30,007,842	(10,002,614)	--	(20,005,228)	--	
	--	--	--	--	(6,656,556)	(6,656,556)	
	1,000,000,000	88,109,628	40,604,666	--	305,676,175	1,434,390,469	

The accompanying notes from (1) to (32) are an integral part of these financial statements.

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF CASH FLOWS
For the year ended 31 December 2018
(Amounts in Saudi Riyals)

	<u>Notes</u>	<u>2018</u>	<u>2017</u> (Restated)
OPERATING ACTIVITIES			
Net income for the year		75,780,162	99,688,635
<i>Adjustments to reconcile net income to net cash generated from / (used in) operating activities:</i>			
Provision for expected credit losses	5, 9	32,188,965	1,461,056
Amortisation of deferred origination fees	10	3,746,170	3,908,722
Depreciation of property and equipment	13	1,088,648	1,452,957
Amortisation of intangible assets	12	1,689,648	1,553,944
Provision for end of service benefits	18, 31	1,638,030	1,543,030
<i>Net (increase) / decrease in operating assets:</i>			
Prepaid expenses and other assets, net		(15,260,126)	(16,170,402)
Due from related parties		134,111	134,984
Advances to property owners		5,844,714	(4,813,000)
Investments in finance lease	9	(65,038,974)	(193,362,340)
Deferred origination fees	10	(1,119,091)	(2,547,693)
<i>Net increase / (decrease) in operating liabilities:</i>			
Accounts payable		29,182,085	1,000,883
Accrued expenses and other liabilities	15	666,040	(1,074,224)
Advance lease rentals		(3,825,680)	(2,935,779)
Net cash from operations		66,714,702	(110,159,227)
Zakat and income tax paid	16	(6,749,562)	(6,442,717)
End of service benefits paid	18	(368,841)	(260,083)
Net cash generated from / (used in) operating activities		59,596,299	(116,862,027)
INVESTING ACTIVITIES			
Purchase of property and equipment	13	(554,861)	(852,498)
Purchase of intangible assets	12	(622,123)	(926,478)
Net cash used in investing activities		(1,176,984)	(1,778,976)
FINANCING ACTIVITIES			
Additions in Tawarruq financing facilities	17	282,478,094	523,484,116
Repayment of Tawarruq financing facilities	17	(286,340,553)	(414,486,193)
Net cash generated from financing activities		(3,862,459)	108,997,923
Net increase / (decrease) in cash and cash equivalents		54,556,856	(9,643,080)
Cash and cash equivalents at beginning of the year		25,086,478	34,729,558
Cash and cash equivalents at end of the period		79,643,334	25,086,478
Lease finance income received		286,556,603	259,286,169
Financing charges paid		127,270,671	122,647,515
Non-cash transactions			
Capital work in progress transferred to intangible assets and property and equipment	12,13	930,084	832,738
Investments in finance lease transferred to other real estate		1,750,000	--

The accompanying notes from (1) to (32) are an integral part of these financial statements.

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2018
(Amounts in Saudi Riyals)

1. THE COMPANY AND PRINCIPAL ACTIVITIES

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

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

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

2. BASIS OF PREPARATION

a) *Statement of compliance*

The financial statements of the Company have been prepared in accordance with the International Financial Reporting Standards (IFRS) as modified by SAMA for the accounting of zakat and income tax (relating to the application of International Accounting Standard (IAS) 12 "Income Taxes" and IFRIC 21 - "Levies" in so far as these relate to accounting for Saudi Arabian zakat and income tax). As per SAMA Circular no. 381000074519 dated April 11, 2017 and subsequent amendments through certain clarifications relating to the accounting for zakat and income tax ("SAMA Circular"), zakat and income tax are to be accrued on a quarterly basis through shareholders equity under retained earnings.

b) *Basis of measurement and presentation*

These financial statements are prepared under the historical cost convention except for the equity investment measured at fair value through other comprehensive income ("FVOCI").

c) *Functional and presentation currency*

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

a) *Critical accounting judgments, estimates and assumptions*

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

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2018
(Amounts in Saudi Riyals)

2. BASIS OF PREPARATION (CONTINUED)

Significant areas where management have used estimates, assumption or exercised judgment are as follows:

- Provision for expected credit loss on investments in finance lease, and insurance claims receivable on non-performing decess-case leases (Notes 5 and 10)
- Fair value measurement (Note 26)
- End of service benefits (Note 18)

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set out below.

A. Change in accounting policies

The accounting policies used in the preparation of these financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2017 except for the adoption of the following new standards and other amendments to existing standards and a new interpretation mentioned below. Except for the adoption of IFRS 9 these amendments and adoption has had no material impact on the financial statements on the current period or prior periods and is expected to have an insignificant effect in future periods. The impact and disclosures pertaining to adoption of IFRS 9 has been illustrated in the latter part of these financial statements.

a. Adoption of new standards

Effective from 1 January 2018 the company has adopted two new accounting standards, the impact of the adoption of these standards is explained below:

1) IFRS 15 Revenue from Contracts with Customers

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

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

2) IFRS 9 Financial Instruments

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

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2018
(Amounts in Saudi Riyals)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2) IFRS 9 Financial Instruments (continued)

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

Classification of financial assets and financial liabilities

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

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

- The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in Other Comprehensive Income ("OCI") with no subsequent reclassification to profit or loss; and
- The remaining amount of change in the fair value is presented in profit or loss.

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

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

Impairment of financial assets

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

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

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

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
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(Amounts in Saudi Riyals)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IFRS 7 (Revised)

To reflect the differences between IFRS 9 and IAS 39, IFRS 7 Financial Instruments: Disclosures was updated and the company has adopted it, together with IFRS 9, for the year beginning 1 January 2018.

Changes include transition disclosures as shown in Note 3, detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used are set out in Note 3.

Reconciliations from opening to closing ECL allowances are presented in Notes 3 and 25.

Transition

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

- Comparative periods have not been restated. A difference in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings as at 1 January 2018.
- Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
 - The determination of the business model within which a financial asset is held.
 - The designation and revocation of previous designated financial assets and financial liabilities as measured at FVTPL.
 - The designation of certain investments in equity instruments not held for trading as FVOCI.
 - For financial liabilities designated as at FVTPL, if any, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.

It is assumed that the credit risk has not increased significantly for those debt securities who carry low credit risk at the date of initial application of IFRS 9.

SAUDI HOME LOANS COMPANY
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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Financial assets and financial liabilities

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

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

	Original classification under IAS 39 / IAS 17	New classification under IFRS 9	Original carrying value under IAS 39 / IAS 17	New carrying value under IFRS 9 / IAS 17
<u>FINANCIAL ASSETS</u>				
Cash and cash equivalents	Loans and receivables	Amortised cost	25,086,478	25,086,478
Due from related parties	Loans and receivables	Amortised cost	1,031,358	1,031,358
Investment	Available for sale	FVOCI	892,850	892,850
Investments in finance lease, net*	Leases	N/A	4,181,732,268	4,158,225,388
Insurance claims receivable on non-performing decess-case leases, net **	Loans and receivables	Amortised cost	20,244,105	11,151,765
Total assets			<u>4,228,987,059</u>	<u>4,196,387,839</u>
<u>FINANCIAL LIABILITIES</u>				
Accounts payable	Amortised cost	Amortised cost	1,755,816	1,755,816
Accrued expenses	Amortised cost	Amortised cost	5,841,429	5,841,429
Tawaruq financing facilities	Amortised cost	Amortised cost	2,828,100,620	2,828,100,620
Total liabilities			<u>2,835,697,865</u>	<u>2,835,697,865</u>

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

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

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(A Saudi Closed Joint Stock Company)
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For the year ended 31 December 2018
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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

	<u>Retained Earnings</u>
Closing balance (31 December 2017, as restated)	305,676,175
Impact of adopting new standard (IFRS 9) at 1 January 2018 - re-measurement of financial assets	<u>(32,599,220)</u>
Opening balance (1 January 2018)	<u>273,076,955</u>

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

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

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

SAUDI HOME LOANS COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2018
(Amounts in Saudi Riyals)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- v) The following table provides carrying value of financial assets and financial liabilities in the statement of financial position as at 31 December 2018

	FVOCI – equity investments	Amortized cost	Total carrying amount
<u>FINANCIAL ASSETS</u>			
Cash and cash equivalents	--	79,643,334	79,643,334
Due from related parties	--	897,247	897,247
Investment	892,850	--	892,850
Investments in finance lease, net	--	4,190,325,349	4,190,325,349
Insurance claims receivable on non-performing decess-case leases, net	--	12,970,044	12,970,044
Total assets	892,850	4,283,835,974	4,284,728,824
<u>FINANCIAL LIABILITIES</u>			
Accounts payable	--	30,937,901	30,937,901
Accrued expenses	--	6,507,469	6,507,469
Tawaruq financing facilities	--	2,824,238,161	2,824,238,161
Total liabilities	--	2,861,683,531	2,861,683,531

B. Policies applicable from 1 January 2018

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

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

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

a) *Classification of financial assets*

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

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- **Financial assets at amortized cost**

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

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

- **Financial assets at FVOCI**

Equity Instruments: On initial recognition, for an equity investment that is not held for trading, the company may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

Business model assessment

The company makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated- e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realized.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the company's original expectations, the company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assessments whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is the fair value of the financial asset on initial recognition. 'Interest' is the consideration for the time value of money, the credit and other basic lending risk associated with the principal amount outstanding during a particular period and other basic lending costs (e.g. liquidity risk and administrative costs), along with profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the company considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the company's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money- e.g. periodical reset of interest rates.

b) *Classification of financial liabilities*

(Policy applicable before 1 January 2018)

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

Subsequently financial liabilities were recognized at amortized cost unless they are required to be measured at fair value through profit or loss or an entity has opted to measure a liability at fair value through profit or loss.

(Policy applicable after 1 January 2018)

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

c) *Derecognition*

i. *Financial assets*

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

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

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

ii. Financial liabilities

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

d) *Modification of financial assets and financial liabilities*

i. Financial assets

If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized with the difference recognized as a derecognition gain or loss and a new financial asset is recognized at fair value.

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

ii. Financial liabilities

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

e) *Impairment*

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

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

No impairment loss is recognized on equity investments.

The Company measures loss allowances at an amount equal to lifetime ECL, except for other financial instruments on which credit risk has not increased significantly since their initial recognition

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement of ECL

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

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

Restructured financial assets

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

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

Credit-impaired financial assets

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

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of exposure on terms that the Company would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; and
- or the disappearance of an active market for a security because of financial difficulties.

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

Presentation of allowance for ECL in the statement of financial position

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

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Write-off

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

f) *Income / expense recognition*

i. Income and expenses

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

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

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

ii. Measurement of amortized cost and income

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

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

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

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

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

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Policies applicable before adoption of IFRS 9

The Company classified its financial assets into one of the following categories:

i) Investments

All investment securities are initially recognised at fair value, plus for investments not held as FVTPL, incremental direct transaction cost and are subsequently accounted for depending on their classification as either held to maturity, fair value through income statement ("FVIS"), available-for-sale ("AFS") or other investments held at amortised cost. Premiums are amortised and discounts accreted using the effective yield basis and are taken to special commission income.

Following initial recognition, subsequent transfers between the various classes of investments are permissible only if certain conditions are met. The subsequent period-end reporting values for each class of investment are determined on the basis as set out in the following paragraphs.

Investment

AFS investments

AFS investments are those non-derivative equity and debt securities which are neither classified as held to maturity investments, loans and receivables nor designated as FVIS that are intended to be held for an unspecified period of time, which may be sold in response to needs for liquidity or changes in special commission rates, exchange rates or equity prices. Unrealised gains or losses on revaluation of these investments are credited or charged to other comprehensive income. Any significant or prolonged decline in the value of AFS investments is charged to the profit or loss.

When the investment is sold the gain or loss accumulated in equity is reclassified to profit or loss.

ii) *Impairment of investments in finance lease*

The Company reviews its lease receivables on a monthly basis to assess whether specific provision for impairment should be recorded in the statement of comprehensive income. In particular, considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgement and uncertainty, and actual results may differ resulting in future changes to such provisions. Provision for lease losses represents impairment charge relating to net investment in finance lease. Management estimates the provision using recovery rates determined based on the age of finance lease receivable, latest valuation of the collateral property and historical losses.

iii) *Derecognition*

Derecognition of financial assets:

A financial asset (or, where applicable, a part of a financial asset or part of a Company of similar financial assets) is derecognised when the rights to receive cash flows from the asset have expired or the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Policies applicable before adoption of IFRS 9 (continued)

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Derecognition of financial liabilities:

A financial liability (or a part of a financial liability) can only be derecognised when it is extinguished, that is when the obligation specified in the contract is either discharged, cancelled or expires.

On de-recognition of a financial asset or financial liability, the difference between the carrying amount and the consideration received (and receivable) or paid (and payable) is recognised in the statement of comprehensive income.

D. Cash and cash equivalents

Cash and cash equivalents comprise of cash in hand and balances with local banks having sound credit rating.

E. Investment in finance lease

Investments in finance lease represents net investment in Ijarah leasing contracts which are receivable from customers on account of finance leases. Ijarah is a an agreement whereby the Company, acting as a lessor, purchases an asset for lease according to the customer request (lessee), based on his promise to lease the asset for an agreed rent and specific period that could end by transferring the ownership of the leased asset to the lessee. Leases in which the Company transfers substantially all the risks and rewards incidental to the ownership of an asset to the lessees at the end of the contract are classified as finance leases according to IFRS (IAS 17 – Leases). Investments in finance leases are recorded at the inception of the lease at the lower of the fair value of the leased asset or the present value of the minimum lease payments.

All leased properties are under the Company's name, except for those where the ownership has been transferred to Arab National Bank (a shareholder) in accordance with the terms of the facilities agreements for Tawarruq financing facilities (refer to Note 17), and for those where the ownership has been kept under the name of Kingdom Installment Company (a shareholder) as a custodian in accordance with the custodian agreement. The contract signed with customer represents an Ijarah contract with irrevocable promises to transfer the ownership, where the legal title of the asset will be passed to the lessee once all Ijarah instalments are settled. Based on the criteria laid out in IAS 17, these contracts meet the definition of finance lease, even though the legal ownership of these underlying properties is not transferred as of the date of statement of financial position.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Investment in finance lease (continued)

Gross investments in finance lease include the total of future lease payments on finance leases (lease receivables), plus estimated residual amounts receivable. The difference between the lease receivables and the cost of the leased asset is recorded as unearned lease finance income and for presentation purposes, is deducted from the gross investment in finance leases.

Recognition

The inception of the lease is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. At the inception of the lease the amounts to be recognised at the commencement of the lease term are determined.

The commencement of the lease is considered to be the date when the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

F. Service fees

Service fees relate to amounts receivable by the Company arising from the sale of a portion of investments in finance lease portfolio to ANB in 2014. These amounts are recoverable by the Company whilst the finance leases are outstanding and are recognised (at predefined rates per the agreements) as the outstanding amounts are settled by the lessees (net of any related expenses) on a monthly basis.

G. Application and evaluation fee income

Application and evaluation fee income are charged when the customer submits his application for evaluation to qualify for lease financing. Evaluation fee is non-refundable while application is refundable subject to the success of the evaluation. Application and evaluation fee income are recognised as the transaction is completed or the service, is provided.

Related fees and commission expense are expensed as the transaction is completed or the service is received.

H. End of service benefits

The Company operates an end of service benefit plan for its employees based on prevailing Saudi Labour laws. The liability is being accrued based on projected unit credit method. Employees' end of service liability is estimated using average service life of employees, contractual retirement age and historical average salary increments. The liability is discounted using appropriate government bond rate in line with the requirements of IAS 19.

IAS 19 – "Employee Benefits" – amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. For details of assumptions and estimate, please refer to Note 18.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. *Property and equipment*

Property and equipment are stated at cost less accumulated depreciation. Expenditure on maintenance and repairs is expensed, while expenditure for betterment is capitalised. Depreciation is provided over the estimated useful lives of the applicable assets using the straight-line method. Leasehold improvements are amortized over the shorter of the estimated useful life or the remaining term of the lease.

The estimated useful lives of the principal classes of assets are as follows:

	<u>Rate</u>
Leasehold improvements	10%
Motor vehicles	25%
Furniture, fixture and office equipment	10%-25%
Computers	25%-33.3%

Depreciation is charged using the straight-line method over its estimated useful life, at the rates specified above, after taking into account residual value. Depreciation on additions is charged from the month the assets are available for use. Gains / losses on disposal of property and equipment, if any, are taken to the statement of comprehensive income in the period in which they arise. Assets having an indefinite useful life are stated at acquisition cost less accumulated impairment losses, if any. The assets residual values, useful lives and methods are reviewed and adjusted, if appropriate, in the statement of financial position.

J. *Other real estate*

The Company, in the ordinary course of business, acquires / retains certain real estate against settlement of the investment in finance lease. Such real estate are considered as assets held for sale and are initially stated at the lower of net realisable value of the investment in finance lease and the current fair value of the related properties, less any costs to sell (if material). No depreciation is charged on such real estate.

Subsequent to initial recognition, any subsequent write down to fair value less costs to sell, are charged to the statement of income. Any subsequent revaluation gain in the fair value less costs to sell of these assets to the extent this does not exceed the cumulative write down is recognised in the statement of income. Gains or losses on disposal of these properties are recognised in the statement of income.

Collateral valuation

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

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

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. *Other real estate*

Collateral repossessed

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

K. *Intangible assets*

Intangible assets that are acquired by the Company and have finite useful lives and are measured at cost less accumulated amortisation and accumulated impairment.

Amortisation:

Intangible assets are amortised on a straight-line basis in the statement of comprehensive income over their estimated useful lives from the date that they are available for use.

Intangible assets comprise of computer software and their estimated useful life for the current and comparative years is 3-5 years.

L. *Impairment of non - financial assets*

An assessment is made at each statement of financial position date to determine whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's, or cash-generating units (CGU), fair value less cost to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

M. *Accounting for leases*

(i) *Where the Company is the lessee*

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.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty, net of anticipated rental income (if any), is recognised as an expense in the period in which termination takes place.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ii) Where the Company is the lessor

When assets are transferred under a finance lease (Islamic Ijara contracts), the present value of the lease payments is recognised as a receivable and disclosed under “net investment in finance lease”. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

N. Deferred origination fees

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

O. Advance lease rental

Advance lease rental includes rent received from customers in advance, security deposits and unapplied receipts from the customers.

P. Accrued expenses and other liabilities

Accrued expenses and other liabilities include employee related cost, maintenance commitments and legal consultation fees.

Q. Other provision

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each statement of financial position date and are adjusted to reflect the current best estimates.

R. Proposed dividend and transfer between reserves

Dividends and appropriations to reserves, except appropriations which are required by law, made subsequent to the statement of financial position date are considered as non-adjusting events and are disclosed in the financial statements in the year in which they are approved / transfers are made.

S. Estimated zakat and income tax

The Company is subject to the Regulations of the General Authority of Zakat and Tax (“GAZT”) in the Kingdom of Saudi Arabia. Zakat and income tax are provided on an accrual basis. Zakat is computed on the Saudi shareholders’ share of equity or net income using the basis defined under the Zakat regulations. The Zakat charge is computed on the Zakat base. Income taxes are computed on the foreign shareholders share of net income for the year. Income tax is computed on adjusted net income. Any difference in the estimate is recorded when the financial assessment is approved, at which time the provision is cleared.

Zakat and income taxes are accrued on quarterly basis and are included under liabilities as provision for zakat and income tax. These are charged directly to retained earnings as required by SAMA Circular No. 381000074519 issued in April 2017.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

T. *General and administrative expenses*

General and administrative expenses are expenses related to the day-to-day operations of the business including rent, insurance, utilities and salaries. The Company follows accrual basis of accounting to record the general and administrative expenses and recognised as expenses in the statement of income in the period in which they are incurred. Expenses that are deferred for more than one financial period are allocated to expenses over such periods using historical cost.

U. *Selling and marketing expense*

Selling and marketing expense are expenses associated with marketing and selling the products of the company (Ijara contracts) including, advertising, website maintenance, spending on social media and other out-off pocket expenses.

V. *Transactions with related parties*

The Company has related party relationships with related companies, associated companies, directors and key management personnel and entities over which the directors or key management personnel are able to exercise significant influence. The Company in the normal course of business carries out transactions with various related parties. Amounts due from and to related parties are disclosed in the relevant notes.

W. *Foreign currency transactions*

Foreign currency transactions are translated into Saudi Riyals at the rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated at the exchange rates prevailing at that date. Gains and losses from settlement and translation of foreign currency transactions are included in the statement of comprehensive income.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand and current account balances with bank.

	<u>2018</u>	<u>2017</u>
Cash in hand	17,500	17,500
Bank current accounts	79,625,834	25,068,978
	<u>79,643,334</u>	<u>25,086,478</u>

5. PREPAID EXPENSES AND OTHER ASSETS, NET

Prepaid expenses and other assets comprised of the following:

	<u>Note</u>	<u>2018</u>	<u>2017</u>
Insurance claims receivable on decess-case leases		25,171,311	22,353,080
VAT receivable		8,366,174	--
Prepaid financing facility interest (IFC)		4,662,866	3,670,881
Prepaid Insurance		3,686,186	--
Advance tax		3,460,872	3,293,700
Prepaid financing facility fees (IFC)		1,723,096	2,036,392
Prepaid financing facility fees (GIB)		1,537,500	2,212,500
Legal claim		1,018,356	1,018,356
Prepaid software maintenance		843,621	676,078
Prepaid rent		561,922	561,985
Employees' advances and receivables		144,199	96,835
Others		43,000	39,170
		<u>51,219,103</u>	<u>35,958,977</u>
Allowance for provision for:			
- ECL on insurance claims receivable on non-performing decess-case leases	3.2(a)ii	(12,201,267)	(2,108,975)
- Legal claims		(1,018,356)	(1,018,356)
		<u>37,999,480</u>	<u>32,831,646</u>

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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.

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 Kingdom Instalment company	Shareholder
Afwaf Investment Company	Shareholder
ANB Metlife	Affiliate
	Affiliate

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

	2018	2017
Loan obtained from a shareholder (ANB)	2,216,981,529	2,359,290,774
Loan obtained from a shareholder (IFC)	187,500,000	187,500,000
Tawaruq financing charges (ANB)	109,898,506	106,562,270
Takaful protection coverage (ANB Metlife)	8,236,857	13,479,906
Service fees, net (Note 21)	10,156,303	11,566,637
Prepaid financing facility fees (IFC)	1,723,096	2,036,392
Prepaid interest expense (IFC)	4,662,866	3,670,881
Rent charged by an affiliate	1,882,090	1,882,090
Deferred origination fees (Note 10)	1,119,091	2,547,693
Tawaruq financing charges (IFC)	8,794,273	569,599

Due from related parties comprised of the following:

	2018	2017
Arab National Bank	897,247	1,031,358
	<u>897,247</u>	<u>1,031,358</u>

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7. RELATED PARTY TRANSACTIONS (CONTINUED)

Compensation of directors and other key management personnel

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

	2018	2017
Salaries	3,214,908	3,095,592
End of service benefits	272,902	239,371
Other allowances	960,485	916,909
	<u>4,448,295</u>	<u>4,251,872</u>

8. INVESTMENT

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

Pursuant to Article 18/1 of the financial leasing law, Saudi 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.

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

9. INVESTMENTS IN FINANCE LEASE - NET

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

	<u>2018</u>	<u>2017</u>
Minimum lease payments		
Performing leases	6,515,280,546	6,363,996,963
Non-performing leases	317,694,471	192,153,639
Investments in finance lease - gross	6,832,975,017	6,556,150,602
Less: Unearned finance income	(2,575,750,005)	(2,362,214,564)
Investments in finance lease before impairment	4,257,225,012	4,193,936,038
Less: Allowance for credit losses	(66,899,663)	(12,203,770)
Investments in finance lease – net	4,190,325,349	4,181,732,268
Less: Current portion	(262,693,122)	(243,341,195)
Less: Accrued finance lease receivable	(40,098,952)	(30,282,923)
Non-current portion	<u>3,887,533,275</u>	<u>3,908,108,150</u>

Investments represent net investment in finance lease. Total number of outstanding lease agreements as at 31 December 2018 is 6,587 (31 December 2017:6,298).

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9. INVESTMENTS IN FINANCE LEASE – NET (CONTINUED)

The Company generates substantially all of its revenues from leasing real estate in the Kingdom of Saudi Arabia. Gross amounts due in relation to the finance leases are due from individual customers. Title deeds of the underlying properties are in the name of the Company, except for those where the ownership has been transferred to Arab National Bank (a shareholder) in accordance with the terms of the facility agreement for Tawaruq Financing facilities (refer to note 17), and for those where the ownership has been kept under the name of Kingdom Instalment Company (a shareholder) as a custodian in accordance with the custodian agreement.

9.1 The movement in the allowance for credit losses for investments as at 31 December 2018 is shown below:

	<u>2018</u>	<u>Total</u>
Closing loss allowance as at 31 December 2017 (Calculated under IAS 39)		12,203,770
Amounts restated through opening retained earnings		23,506,880
Opening loss allowance as at 1 January 2018 (Calculated under IFRS 9)		35,710,650
Charge for the period, net		31,189,013
Balance at the end of the period		66,899,663

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

	<u>12 month ECL</u>	<u>Life time ECL not credit impaired</u>	<u>Life time ECL credit impaired</u>	<u>Total</u>
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>3,518,448,543</u>	<u>459,025,231</u>	<u>21,285,1575</u>	<u>4,190,325,349</u>

The related staging movements of the investments in finance lease and the related allowance for expected credit losses are disclosed in Note 25.

9.3 Maturity profile of the lease payments is as follows:

<u>Year</u>	<u>2018</u>			<u>2017</u>
	<u>Minimum lease payments</u>	<u>Unearned finance income</u>	<u>Investments in finance lease</u>	<u>Investments in finance lease</u>
Within one year	608,983,538	306,191,464	302,792,074	285,827,889
Year two	556,803,239	286,510,890	270,292,349	265,602,523
Year three	543,218,688	266,099,106	277,119,582	270,249,315
Year four	528,422,835	245,449,437	282,973,398	274,317,063
Year five and later	4,595,546,717	1,471,499,108	3,124,047,609	3,097,939,248
	<u>6,832,975,017</u>	<u>2,575,750,005</u>	<u>4,257,225,012</u>	<u>4,193,936,038</u>

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9. INVESTMENTS IN FINANCE LEASE – NET (CONTINUED)

Collateral

The Company in the ordinary course of lending activities holds collateral as security to mitigate credit risk. These collaterals are primarily title deeds in the name of the Company, for properties that have been leased out to the portfolio of investments in finance lease. As at 31 December 2018, the carrying amount of gross non-performing leases amounted to SR 183.31 million (2017: SR 111.47 million) and the fair value of identifiable real estate collateral held against them amounted to SR 241.80 million (2017: SR 156.2 million). The Company has a policy to value every year, all real estate properties leased out, by involving approved appraisers.

10. DEFERRED ORIGINATION FEES

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

	<u>2018</u>	<u>2017</u>
Deferred origination fees	29,810,236	32,437,315
Less: Current portion	<u>(3,137,011)</u>	<u>(3,188,203)</u>
Non-current portion	<u>26,673,225</u>	<u>29,249,112</u>

The movement in deferred origination fees is shown below:

	<u>2018</u>	<u>2017</u>
At beginning of the year	32,437,315	33,798,344
Origination fees incurred for the year	1,119,091	2,547,693
Origination charge for the year	<u>(3,746,170)</u>	<u>(3,908,722)</u>
At end of the year	<u>29,810,236</u>	<u>32,437,315</u>

11. OTHER REAL ESTATE

The Company repossessed two real estate assets against settlement of over-due long term investments in finance lease as following:

	<u>2018</u>	<u>2017</u>
At beginning of the year	1,079,685	1,079,685
Repossession during the year	<u>1,750,000</u>	<u>--</u>
At end of the year	<u>2,829,685</u>	<u>1,079,685</u>

12. INTANGIBLE ASSETS

<u>Cost</u>	<u>2018</u>	<u>2017</u>
Balance at beginning of the year	8,350,889	7,424,411
Additions	<u>622,123</u>	<u>926,478</u>
Balance at end of the year	<u>8,973,012</u>	<u>8,350,889</u>
<u>Accumulated amortisation</u>		
Balance at beginning of the year	<u>(3,721,288)</u>	<u>(2,167,344)</u>
Charge for the year	<u>(1,689,648)</u>	<u>(1,553,944)</u>
Balance at end of year	<u>(5,410,936)</u>	<u>(3,721,288)</u>
Net book value	<u>3,562,076</u>	<u>4,629,601</u>

Intangible assets comprise of computer software purchased by the Company for its business and major upgrades in the computer software to meet business requirements.

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13. PROPERTY AND EQUIPMENT, NET

	<u>Leasehold improvements</u>	<u>Vehicles</u>	<u>Furniture, fixtures and office equipment</u>	<u>Computers</u>	<u>Work-in- process</u>	<u>Total</u>
Cost						
Balance at beginning of the year	5,344,150	495,001	5,767,407	7,835,970	155,751	19,598,279
Additions	25,497	--	9,433	273,031	246,900	554,861
Balance at end of the year	<u>5,369,647</u>	<u>495,001</u>	<u>5,776,840</u>	<u>8,109,001</u>	<u>402,651</u>	<u>20,153,140</u>
Accumulated depreciation						
Balance at beginning of the year	3,275,401	266,561	4,676,849	6,780,418	--	14,999,229
Charge for the year	333,071	106,295	216,169	433,113	--	1,088,648
Balance at end of the year	<u>3,608,472</u>	<u>372,856</u>	<u>4,893,018</u>	<u>7,213,531</u>	<u>--</u>	<u>16,087,877</u>
Net book value						
31 December 2018	<u><u>1,761,175</u></u>	<u><u>122,145</u></u>	<u><u>883,822</u></u>	<u><u>895,470</u></u>	<u><u>402,651</u></u>	<u><u>4,065,263</u></u>

	<u>Leasehold improvements</u>	<u>Vehicles</u>	<u>Furniture, fixtures and office equipment</u>	<u>Computers</u>	<u>Work-in- process</u>	<u>Total</u>
Cost						
Balance at beginning of the year	5,331,650	495,001	5,693,675	7,169,088	194,125	18,883,539
Additions	12,500	--	359,531	480,467	1,945,546	2,798,044
Disposals	--	--	(137,758)	--	--	(137,758)
Transfers	--	--	(148,041)	186,415	(1,983,920)	(1,945,546)
Balance at end of the year	<u>5,344,150</u>	<u>495,001</u>	<u>5,767,407</u>	<u>7,835,970</u>	<u>155,751</u>	<u>19,598,279</u>
Accumulated depreciation						
Balance at beginning of the year	2,758,056	149,749	4,498,839	6,277,386	--	13,684,030
Charge for the year	517,345	116,812	315,768	503,032	--	1,452,957
Disposals	--	--	(137,758)	--	--	(137,758)
Balance at end of the year	<u>3,275,401</u>	<u>266,561</u>	<u>4,676,849</u>	<u>6,780,418</u>	<u>--</u>	<u>14,999,229</u>
Net book value						
31 December 2017	<u><u>2,068,749</u></u>	<u><u>228,440</u></u>	<u><u>1,090,558</u></u>	<u><u>1,055,552</u></u>	<u><u>155,751</u></u>	<u><u>4,599,050</u></u>

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14. 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 enter into Ijara finance lease contracts with Saudi nationals as part of the government’ 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 December 2018, the Company’s accounts payable includes an amount due to MOH totalling to SAR 22.59 million (31 December 2017: nil). 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.

15. ACCRUED EXPENSES AND OTHER LIABILITIES

	<u>2018</u>	<u>2017</u>
Employees' related expenses	5,357,186	4,191,978
Accrued legal and consultation fees	296,255	595,000
Provision for maintenance on finance lease contracts	404,279	444,800
Accrued brokerage fees	33,840	266,637
Others	415,909	343,014
Total	<u>6,507,469</u>	<u>5,841,429</u>

16. PROVISION FOR ZAKAT AND INCOME TAX

Zakat is a levy as defined by the GAZT in the Kingdom of Saudi Arabia on the Saudi shareholders.

Income tax charge for the year has been calculated based on adjusted net income of the Company attributable to Non-Saudi shareholders at the rate of 20% per annum.

The movements in the Company’s provision for zakat and income tax for the year ended 31 December are as follows:

	<u>2018</u>	<u>2017</u>
Balance, beginning of the year	6,655,591	6,441,752
Provision for zakat for the current year	5,986,633	2,048,771
Provision for zakat for the previous years	25,366,827	--
Provision for income tax for the current year	5,060,436	4,607,785
Income tax adjustment	93,971	--
Payment during the year	<u>(6,749,562)</u>	<u>(6,442,717)</u>
Balance, end of the year	<u>36,413,896</u>	<u>6,655,591</u>

The Company has filed its zakat and income tax returns for the years from 2008 up to 2017.

During 2014 the Company received the final assessments from GAZT in respect of the years from 2008 to 2011 requesting an additional zakat liability amounting to SR 45,638,701. The Company has filed an appeal against this assessment. Such liability is primarily due to disallowing the deduction of the investments in finance leases from the zakat base of the Company. In November 2017, the Company received another assessment in respect of the years 2012 to 2015 requesting an additional zakat liability of SR 80,590,614. The Company has filed another appeal against this assessment too.

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16. PROVISION FOR ZAKAT AND INCOME TAX (CONTINUED)

Subsequent to the end of reporting date of the financial statements, the Company has received a proposed settlement agreement from the GAZT dated 6 February 2019 to settle certain amount and clear for any 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. As such, the provision for zakat is as follows based on the terms of the settlement agreement:

- a. For the financial years from 2014 to 2017, the Company has recognised provision for zakat amounting to SR 25.37 million to be paid as follows:
 - o Advance payment of SR 5.07m (20%); and
 - o Five equal annual instalments of SR 4.06m every 1 December in 2019 to 2023.
- b. For the financial year 2018, the Company has recognised provision for zakat amounting to SR 5.99 million.

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

The Company's provision for income tax for the year ended 31 December is computed as follows:

<u>Income tax</u>	<u>2018</u>	<u>2017</u>
Taxable net income	<u>110,489,813</u>	103,735,227
Non-Saudi portion of the adjusted net income	<u>23,202,860</u>	21,784,398
Finance charges in excess of allowed amount	<u>2,227,049</u>	1,638,077
Non-Saudi share of utilized provisions previously added back to the taxable income	<u>(127,728)</u>	(383,548)
	<u>25,302,181</u>	<u>23,038,926</u>
Income tax for the year (20%)	<u>5,060,436</u>	<u>4,607,785</u>

17. TAWARRUQ FINANCING FACILITIES

	<u>2018</u>	<u>2017</u>
Current portion of facilities	<u>643,677,938</u>	298,296,606
Non-current portion of facilities	<u>2,173,082,129</u>	2,526,135,267
Total excluding financial charges	<u>2,816,760,067</u>	2,824,431,873
Accrued Tawarruq financing charges	<u>7,478,094</u>	3,668,747
Total including financial charges	<u>2,824,238,161</u>	<u>2,828,100,620</u>

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. ANB 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 2,216,981,528 in favour of the bank. These facilities bear finance charges at 6months SIBOR plus annual profit margin of 2%. ANB facility repayment schedule is based on equal semi-annual payments and the remaining 80% will be repaid as a lump sum on the final maturity date.

The Company has a Murabaha facility with GIB 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 503,707,960 of the finance amount. The facility bears a finance charge of 6 months SIBOR plus a profit margin of 1.95% for the first agreement and the 2% for the second.

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17. TAWARRUQ FINANCING FACILITIES (CONTINUED)

The Company has a Murabaha facility with IFC for a period of 8 years including a grace period of 1 year, the facility amount of which is US\$ 50 million (SR 187.5 million) secured through the issuance of promissory notes and against contract receivables covering 120% of the loan amount. The facility will be repaid in 12 semi-annual equal instalments. The facility bears a finance cost of 6 month libor plus a profit margin on 2.46%.

Loan from ANB is SR 2,216,981,528 (2017: SR 2,359,290,774), GIB is SR 419,756,633 (2017:SR 281,309,846) and from IFC is SR 187,500,000 (2017: SR 187,500,000).

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

	<u>2018</u>	<u>2017</u>
ANB Tawarruq Facility	109,898,506	106,562,270
GIB Tawarruq Facility	12,674,976	12,206,599
IFC Tawarruq Facility	9,126,319	569,599
Total Finance Charge	131,699,801	119,338,468

Detail of the facilities and outstanding balance thereon is as follows:

<u>Maturity date</u>		<u>Facility amount</u>	<u>Outstanding balance</u>	<u>Current portion</u>	<u>Non-current portion</u>
June 2021	ANB	500,000,000	244,677,714	11,040,587	233,637,127
March 2022	ANB	500,000,000	318,384,203	13,548,264	304,835,939
June 2022	ANB	650,000,000	446,694,626	19,311,975	427,382,651
April 2019	ANB	500,000,000	399,642,396	399,642,396	--
April 2019	ANB	150,000,000	119,165,802	119,165,802	--
August 2020	ANB	206,696,969	183,818,225	13,293,225	170,525,000
January 2021	ANB	350,000,000	323,749,980	17,500,000	306,249,980
August 2022	ANB	400,000,000	180,848,582	20,272,150	160,576,432
		3,256,696,969	2,216,981,528	613,774,399	1,603,207,129
May 2020	GIB	300,000,000	269,735,315	15,735,315	254,000,000
July 2023	GIB	150,000,000	150,021,318	6,021,318	144,000,000
		450,000,000	419,756,633	21,756,633	398,000,000
June 2025	IFC	187,500,000	187,500,000	15,625,000	171,875,000
Total		3,894,196,969	2,824,238,161	651,156,032	2,173,082,129

Tawarruq financing facilities are scheduled for repayment as follows:

<u>Year</u>	<u>2018</u>	<u>2017</u>
2018	--	301,965,353
2019	651,156,032	813,879,570
2020	378,684,891	352,684,891
2021	765,313,314	614,313,314
2022	824,958,924	667,132,492
2023	157,250,000	31,250,000
2024	31,250,000	31,250,000
2025	15,625,000	15,625,000
	2,824,238,161	2,828,100,620

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18. END OF SERVICE BENEFITS

The Company operates an 'End of service benefit plan' for its staffs based on the prevailing Saudi Labour Laws. As at 31 December 2018, actuarial valuation was carried out by the Company which estimated the plan liability to be SR 8.59 million. Based on the actuarial valuation performed, cumulative adjustment to prior period obligation balance is shown in Note 31.

The amounts recognized in the statement of financial position and movement in the obligation during the year based on its present value are as follows:

	<u>2018</u>	<u>2017</u> (Restated)
Defined benefit obligation at the beginning of the year	7,728,097	6,445,150
Current service cost	1,379,289	1,296,610
Interest cost on defined benefit obligation	258,741	246,420
Benefits paid/payable to outgoing members during the year	(368,841)	(260,083)
Actuarial (gain) loss on obligation	(406,970)	--
Defined benefit obligation at the end of the period / year	<u>8,590,316</u>	<u>7,728,097</u>

Amounts charged to the statements of income and comprehensive income for the year are as follows:

	<u>2018</u>	<u>2017</u> (Restated)
Current service cost	1,379,289	1,296,610
Interest cost on defined benefit obligation	258,741	246,420
Cost recognised in the statement of income	<u>1,638,030</u>	<u>1,543,030</u>
Actuarial gain on obligation recognised in OCI during the year	(406,970)	--
Total defined benefit cost recognised during the year	<u>1,231,060</u>	<u>1,543,030</u>

The re-measurement recognised in other comprehensive income comprise of the following:

	<u>2018</u>	<u>2017</u>
Gain from change in financial assumptions	375,700	--
Gain from change in experience assumptions	31,270	--
Actuarial re-measurement of the defined benefit obligation	<u>406,970</u>	<u>--</u>

The principal actuarial assumptions in respect of the employee benefit scheme are as follows:

	<u>2018</u>	<u>2017</u>
Discount rate	4.55%	3.15%
Expected rate of salary increase	5.0%	3.6%
Normal retirement age	60	60

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

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18. END OF SERVICES BENEFITS (CONTINUED)

The maturity profile of the defined benefit obligation is as follows:

	<u>2018</u>	<u>2017</u>
Weighted average duration of the defined benefit obligation	9.96	10.51
Distribution of timing of benefit payments		
Year 1	472,332	399,875
Year 2	542,942	464,140
Year 3	1,080,285	531,198
Year 4	685,393	1,048,088
Year 5	986,323	666,520
Year 6-10	7,749,453	7,063,016

The table below illustrates the sensitivity of the defined benefit obligation valuation as at 31 December 2018 and 2017 to the discount rate and the expected rate of salary increase while other assumptions remain constant.

	<u>2018</u>	<u>2017</u>
Discount rate, +0.5%	(428,735)	(406,903)
Discount Rate, -0.5%	428,735	406,903
Expected rate of salary increase, +0.5%	298,125	256,487
Expected rate of salary increase, -0.5%	(298,125)	(256,487)

19. SHARE CAPITAL

The authorised, issued and fully paid share capital of the company consists of 100 million shares of SAR 10 each (2017: 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>

20. STATUTORY 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.

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21. 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. 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 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 December 2018 is SR 10.16 million (SR 11.57 million during the period ended 31 December 2017).

22. SELLING AND MARKETING EXPENSES

	<u>2018</u>	<u>2017</u>
Insurance expenses	13,725,755	13,228,308
Origination expenses	3,746,170	1,927,750
Sales, collection & title commission	2,793,278	2,801,839
Marketing expenses	2,564,798	2,091,934
Evaluation fees	1,989,840	3,908,722
Others	203,625	163,335
	<u>25,023,466</u>	<u>24,121,888</u>

23. GENERAL AND ADMINISTRATIVE EXPENSES

	<u>2018</u>	<u>2017</u>
Employees’ salaries and other benefits	36,377,403	30,152,150
Consultation fees	3,203,521	2,785,635
Depreciation and amortisation	2,778,296	3,006,901
Rent	2,754,063	2,764,600
Telecommunication expenses	780,782	750,788
Travel expenses	666,943	468,878
VAT expense	460,896	--
Repairs and maintenance	402,644	362,553
Recruitment related expenses	351,910	182,045
Printing and stationary	179,029	231,509
Withholding tax	58,568	44,870
Others	2,678,240	4,269,767
	<u>50,692,295</u>	<u>45,019,696</u>

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24. OPERATING LEASE – COMPANY AS A LESSEE

Payments under operating leases recognised as an expense during the year amounted to SR 2,764,600 (2017: SR 2,764,600). Operating lease payments represents the rental contract for the head office in Riyadh and the other two branches in Jeddah and Dammam.

Rent under non-cancellable contract	<u>2018</u>	<u>2017</u>
Less than 1 year	<u>2,764,600</u>	<u>2,764,600</u>

There had been no changes in the lease agreements for the years ended 31 December 2017 and 2018.

25. FINANCIAL RISK MANAGEMENT

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

The Credit and Risk Management Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. The Credit and Risk Management Committee is responsible for managing risk decisions and monitoring on risk levels and reports on a quarterly basis to the Credit and Risk Management Committee.

Credit Risk

The Company manages exposure to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in investments in finance lease. The Company assesses the probability of default of counterparties using internal rating tools.

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

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographical location.

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

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

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25. FINANCIAL RISK MANAGEMENT (CONTINUED)

i. Credit quality analysis

- a) The following table sets out information about the credit quality of financial assets measured at amortized cost as at 31 December 2018.

31 December 2018				
Investments in finance lease	<u>12 month ECL</u>	Life time ECL not credit <u>impaired</u>	Lifetime ECL credit impaired	<u>Total</u>
Gross carrying amounts	3,520,021,639	469,193,928	268,009,445	4,257,225,012
ECL	(1,573,096)	(10,168,698)	(55,157,869)	(66,899,663)
Net carrying amount	<u>3,518,448,543</u>	<u>459,025,230</u>	<u>212,851,576</u>	4,190,325,349

31 December 2018				
Insurance claims receivable on non-performing decess-case leases	<u>12 month ECL</u>	Life time ECL not credit <u>impaired</u>	Lifetime ECL credit impaired	<u>Total</u>
Gross carrying amounts	--	--	25,171,311	25,171,311
ECL	--	--	(12,201,267)	(12,201,267)
Net carrying amount	<u>--</u>	<u>--</u>	<u>12,970,044</u>	12,970,044

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

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

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

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

The Company groups its investments in finance lease into Stage 1, Stage 2, Stage 3, as described below:

Stage 1: When the investments in finance lease are first recognised, the company recognises an allowance based on 12 months ECLs. Stage 1 investments in finance lease also include those where the credit risk has improved and the investments in finance lease has been reclassified from Stage 2.

Stage 2: When the investments in finance lease has shown a significant increase in credit risk since origination, the company records an allowance for the Lifetime ECL. Stage 2 investments in finance lease also include those where the credit risk has improved and the investments in finance lease has been reclassified from Stage 3.

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25. FINANCIAL RISK MANAGEMENT (CONTINUED)

Stage 3: Investments in finance lease considered credit-impaired. The Company records an allowance for the Lifetime ECL.

ii. Generating the term structure of PD

Days past due is the primary input into the determination of the PD term structure. The Company collects performance and default information about its credit risk exposures, analyses the relationships between its historical default rates and macro-economic factors. The key macro-economic indicators are gross national savings, gross domestic product, general government revenue and total investment apart from the relationship of multiple variables which were tested and used in the development of macroeconomic overlaid PD term structures.

ii) Determining whether credit risk has increased significantly

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

The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Company's quantitative modelling. Using its expert credit judgment and, where possible, relevant historical experience, the Company may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

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

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

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

iii) Modified financial assets

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

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25. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

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

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

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

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

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

iv) Definition of 'Default'

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

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

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

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

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

v) Incorporation of forward looking information

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

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25. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

The Company has identified and documented key drivers of credit risk and credit losses for its portfolio and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. Listed below are the key independent variables selected on the basis of correlation used as at 31 December 2018:

- Gross national savings
- Gross domestic product
- General government revenue
- Total investment

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

vi) Measurement of ECL

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

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

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

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

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

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

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

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25. FINANCIAL RISK MANAGEMENT (CONTINUED)

c. Loss allowance

The following table shows reconciliations from the opening to the closing balance of the gross carrying amount of the investment in finance lease and related loss allowance account.

Investments in finance lease before impairment	Lifetime ECL			Total
	12 Month ECL	Not credit impaired	Credit impaired	
Opening balance at 1 January	3,645,864,984	419,471,067	128,599,988	4,193,936,038
Transfer to 12 Month ECL	85,431,008	(77,823,790)	(7,607,218)	--
Transfer to Lifetime ECL (not credit impaired)	(253,260,010)	263,980,907	(10,720,897)	--
Transfer to Lifetime ECL (credit impaired)	(71,096,580)	(97,418,636)	168,515,216	--
Net change for the period	113,082,237	(39,015,619)	(10,777,645)	63,288,973
Closing balance	3,520,021,639	469,193,929	268,009,444	4,257,225,012

Loss Allowance	Lifetime ECL			Total
	12 Month ECL	Not credit impaired	Credit impaired	
Opening balance at 1 January	1,585,378	10,343,110	23,782,162	35,710,650
Transfer to 12 Month ECL	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	1,573,096	10,168,698	55,157,869	66,899,663

Insurance claims receivable	Lifetime ECL			Total
	12 Month ECL	Not credit impaired	Credit impaired	
Opening balance at 1 January	7,041,966	--	15,311,114	22,353,080
Net change for the period	1,860,988	--	957,243	2,818,231
Closing balance	8,902,954	--	16,268,357	25,171,311

Loss Allowance	Lifetime ECL			Total
	12 Month ECL	Not credit impaired	Credit impaired	
Opening balance at 1 January	--	--	11,201,315	11,201,315
Net change for the period	--	--	999,952	999,952
Closing balance	--	--	12,201,267	12,201,267

d. Collateral

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

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25. FINANCIAL RISK MANAGEMENT (CONTINUED)

The amount of collateral held as security for investments in finance lease that are credit-impaired as at 31 December 2018 are as follows:

Loan to Value (SAR 000)	<u>2018</u>
Less than 50%	55,755
51-70%	58,924
More than 70%	127,118

Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately.

Management monitors the maturity profile of the Company's assets and liabilities based on the remaining period at the balance sheet date to the contractual maturity date to ensure that adequate liquidity is maintained. All liabilities other than end of service benefits are contractually payable on a current basis. The table below shows an analysis of financial assets and liabilities according to when they are expected to be recovered or settled.

	<u>Less than 12 months</u>	<u>More than 12 months</u>	<u>2018</u>	<u>Less than 12 months</u>	<u>More than 12 months</u>	<u>2017</u>
Assets						
Cash and bank balances	79,643,334	--	79,643,334	25,086,478	--	25,086,478
Invest. in finance lease (gross)	302,792,074	3,954,432,938	4,257,225,012	285,827,889	3,908,108,149	4,193,936,038
Unearned Finance Income*	306,191,464	2,269,558,541	2,575,750,005	263,637,880	2,098,576,684	2,362,214,564
Prepaid expenses and other assets	37,999,480	--	37,999,480	32,831,646	--	32,831,646
Deferred origination fees	3,137,011	26,673,225	29,810,236	3,188,203	29,249,112	32,437,315
Advances to property owners	5,911,286	--	5,911,286	11,756,000	--	11,756,000
Due from related parties	897,247	--	897,247	1,031,358	--	1,031,358
Total assets	736,571,896	6,250,664,704	6,987,236,600	623,359,454	6,035,933,945	6,659,293,399
Liabilities						
Tawarruq financing facilities	643,677,938	2,173,082,129	2,816,760,067	298,296,606	2,526,135,267	2,824,431,873
Financial charges**	103,739,038	230,538,961	334,277,999	113,798,052	217,528,764	331,326,816
Special commission payable on Tawarruq financing	7,478,094	--	7,478,094	3,668,747	--	3,668,747
Accounts payable	30,937,901	--	30,937,901	1,755,816	--	1,755,816
Advance payments received from customers	7,778,549	--	7,778,549	11,604,229	--	11,604,229
Accrued expenses and other liabilities	6,507,469	--	6,507,469	5,841,429	--	5,841,429
Provision for Zakat and income tax	36,413,896	--	36,413,896	6,176,005	--	6,176,005
Provision for end of service benefits	--	8,590,316	8,590,316	--	5,894,693	5,894,693
Total liabilities	836,532,885	2,412,211,406	3,248,744,291	441,140,884	2,749,558,724	3,190,699,608
Net	(99,960,989)	3,838,453,298	3,738,492,309	182,218,570	3,286,375,221	3,468,593,791

* This represents finance income on long term investment in finance lease from the date of statement of financial position to the contractual maturity of long term investment in finance lease.

**This represents finance charge on Tawarruq financing facilities from the date of statement of financial position to the contractual maturity of Tawarruq financing facilities.

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25. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market risk

Market Risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as commission rates, foreign exchange rates, and equity prices.

The following table depicts the sensitivity to a reasonable possible change in commission rates, with other variables held constant, on the Company's statement of income or equity.

	Increase/ decrease in <u>basis points</u>	Sensitivity of finance <u>charges</u>	<u>Sensitivity analysis</u>		<u>Total</u>
			<u>12 months or less</u>	<u>More than 12 months</u>	
Tawarruq Financing Facilities	+10	6,541,736	2,032,203	4,509,533	6,541,736
	-10	(6,541,736)	(2,032,203)	(4,509,533)	(6,541,736)

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company is subject to fluctuations in foreign exchange rates in the normal course of its business. The Company did not undertake significant transactions in currencies other than Saudi Riyals and US Dollars.

26. 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 and investments.

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; and

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

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

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26. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

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

	Carrying Value	31 December 2018			Total
		Level 1	Level 2	Level 3	
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

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

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

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

27. 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:

	2018	2017
Capital ratio	Total capital ratio % 23.12%	Total capital ratio % 23.83%

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

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

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28. 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 SR 45,638,701 (2017: SR 45,638,701) issued in favour of GAZT related to the Zakat and tax assessments raised for previous years from 2008 to 2011. The Company faces during its normal activity some lawsuits and other claims related to the nature of its activity, however, significant claims are not expected to result from the outstanding lawsuits as at the financial statements date.

29. STANDARDS ISSUED BUT NOT YET EFFECTIVE

The Company has chosen not to early adopt the following new standards which have been issued but not yet effective for the Company's accounting years beginning on or after 1 January 2019 and is currently assessing their impact.

Following is a brief summary of the new IFRS and amendments to IFRS, effective for annual periods beginning on or after 1 January 2019:

- i. IFRS 16 – “Leases”, applicable for the period beginning on or after 1 January 2019. The new standard eliminates the current dual accounting model for lessees under IAS 17, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, IFRS 16 proposes on-balance sheet accounting model.

Transition to IFRS 16

The Company plans to adopt IFRS 16 retrospectively to each prior reporting period presented. The Company will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Company will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Company will elect 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, if any.

As at 31 December 2018, the Company is performing a detailed assessment of the impact of adopting IFRS 16 and is expected to complete in Quarter 1 2019.

- ii. For other standards, amendments or interpretations effective for annual periods beginning on or after 1 January 2019, the Company does not anticipate that these will have a material impact on the Company's financial statements.

30. SUBSEQUENT EVENTS

Subsequent to the balance sheet date of the financial statements, the Company has received a proposed settlement agreement from the GAZT dated 6 February 2019 to settle certain amounts to clear any outstanding assessments relating to the zakat for the financial years from 2014 to 2017 and provides a settlement calculation method for the financial year 2018. The Company has accepted and signed this settlement agreement which was approved by the Board of Directors on 21 February 2019. Refer to Note 16 for further details.

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31. RETROSPECTIVE RESTATEMENT

During 2018, management engaged an actuary to perform valuation of the Company's end of service benefits (Note 18) in accordance with the requirements of IAS 19 Employee Benefits. The actuarial valuation as at 31 December 2017 and 2016 required appropriate brought forward balances for end of service liability which resulted to the need to restate the comparatives. The impact of which has been retrospectively presented in these financial statements by restating the opening balances of the prior period equity and the comparative figures of each of the affected line items summarized as follows:

Statement of financial position

As at 31 December 2017

	31 December 2017 - as reported	Effect of restatement	31 December 2017 - as restated
<u>Current liabilities</u>			
End of service benefits	5,894,693	1,833,404	7,728,097
<u>Equity</u>			
Retained earnings	307,509,579	(1,833,404)	305,676,175

Statement of income

For the year ended 31 December 2017

	31 December 2017 - as reported	Effect of restatement	31 December 2017 - as restated
Employees' salaries and other benefits	29,814,647	337,503	30,152,150

**Charge for end of service benefits is presented under general and administrative expenses in the statement of income.*

Statement of cash flows

For the year ended 31 December 2017

	31 December 2017 - as reported	Effect of restatement	31 December 2017 - as restated
Net income for the year	100,026,138	(337,503)	99,688,635
Provision for end of service benefits	1,205,527	337,503	1,543,030

32. BOARD OF DIRECTORS APPROVAL

These financial statements were approved by the Board of Directors on 21 Jumada Al-Thani 1440H corresponding to 26 February 2019.