

SAUDI HOME LOANS COMPANY
(A SAUDI JOINT STOCK COMPANY)

**CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTH AND SIX MONTH PERIODS ENDED 30 JUNE 2022
AND INDEPENDENT AUDITOR'S REVIEW REPORT**

SAUDI HOME LOANS COMPANY
(A SAUDI JOINT STOCK COMPANY)

**CONDENSED INTERIM FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REVIEW REPORT
FOR THE THREE MONTH AND SIX MONTH PERIODS ENDED 30 JUNE 2022**

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INDEPENDENT AUDITOR'S REVIEW REPORT ON CONDENSED INTERIM FINANCIAL STATEMENTS

To the shareholders
Saudi Home Loans Company
(A Saudi Joint Stock Company)
Riyadh, Saudi Arabia

Introduction

We have reviewed the accompanying condensed interim statement of financial position of Saudi Home Loans Company (A Saudi Joint Stock Company) (the "Company") as of June 30, 2022 and the related statements of profit or loss and other comprehensive income for the three month and six month periods ended June 30, 2022 and the related statements of changes in equity and cash flows for the six month period ended June 30, 2022. Management is responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 - "Interim Financial Reporting" (IAS 34) as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information are not prepared, in all material respects, in accordance with IAS 34 as endorsed in the Kingdom of Saudi Arabia.

Other matter

The financial statements of the Company for the year ended December 31, 2021 and the interim financial information for the three month and six month periods ended June 30, 2021 and the three month period ended March 31, 2022 were audited and reviewed by another auditor who expressed an unmodified opinion and an unmodified conclusion on those statements on March 6, 2022, August 4, 2021 and April 28, 2022 respectively.

Deloitte and Touche & Co.
Chartered Accountants



Mazen A. Al-Omari
Certified Public Accountant
License No. 480



05 Muharram, 1444
August 03, 2022

SAUDI HOME LOANS COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2022
(Expressed in Saudi Riyal)

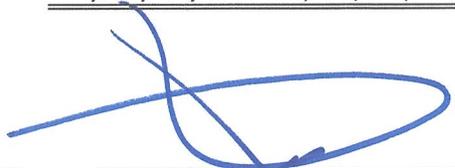
	Notes	30 June 2022 (Unaudited)	31 December 2021 (Audited)
ASSETS			
Cash and cash equivalents	4	153,523,860	214,467,647
Advances to property owners	4.1	20,588,952	11,716,500
Due from a related party	5	806,315	739,733
Prepaid expenses and other assets	6	8,633,619	9,953,914
Other receivables, net	7	35,430,718	36,879,639
Investment held at fair value through other comprehensive income ("FVOCI")		892,850	892,850
Positive fair value of derivative	16	21,624,090	-
Investments in finance lease, net	8	3,866,333,036	4,013,303,094
Murabaha receivables, net	9	235,406,807	74,786,137
Deferred origination fees		16,193,584	18,204,844
Other real estate		11,383,341	8,636,219
Right-of-use asset		6,683,975	7,015,918
Property and equipment		3,370,436	4,137,340
Intangible assets		2,443,877	2,896,071
Deferred tax	13	2,401,730	4,402,330
TOTAL ASSETS		4,385,717,190	4,408,032,236
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Accounts payable	10	11,764,789	7,417,401
Accrued expenses and other liabilities	11	14,793,630	11,666,926
Advance lease rentals		10,725,838	7,969,186
Lease liability		5,655,755	6,753,491
Provision for zakat and income tax	12	15,325,557	22,618,176
Tawarruq financing facilities	14	2,642,018,710	2,653,074,515
End of service benefits	15	9,402,622	8,598,413
Total liabilities		2,709,686,901	2,718,098,108
Shareholders' equity			
Share capital	17	1,000,000,000	1,000,000,000
Statutory reserve	18	119,715,334	116,479,630
Other reserve	15	1,669,706	1,829,576
Retained earnings		554,645,249	571,624,922
Total shareholders' equity		1,676,030,289	1,689,934,128
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		4,385,717,190	4,408,032,236


Yousef Al Shalash

Chairman


Bandar Al Ghamdi

Chief Executive Officer


Muath Jabr

Chief Financial Officer

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

SAUDI HOME LOANS COMPANY
(A SAUDI JOINT STOCK COMPANY)

**CONDENSED INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE THREE MONTH AND SIX MONTH PERIODS ENDED 30 JUNE 2022**

(Expressed in Saudi Riyal)

	Notes	For the three month period ended June 30 (unaudited)		For the six month period ended June 30 (unaudited)	
		2022	2021	2022	2021
Lease finance income		65,515,417	70,862,524	128,527,233	140,661,301
Service fees, net		1,043,896	1,389,692	2,220,630	2,857,469
Application and evaluation fee income		560,150	1,018,171	1,175,127	2,896,421
Asset sale income		392,535	201,780	805,867	2,869,229
Total revenue		67,511,998	73,472,167	132,728,857	149,284,420
Fair value gain on derivatives	16	10,990,765	-	21,624,090	-
Other income		1,625,846	11,686	1,614,301	131,299
Total operating income		80,128,609	73,483,853	155,967,248	149,415,719
Finance charges		(21,531,769)	(18,602,626)	(40,583,234)	(37,448,495)
General and administrative expenses	21	(25,636,046)	(26,519,371)	(50,688,178)	(50,590,824)
Write off and reversal of expected credit losses ("ECL")	7, 8 & 9	2,780,940	6,722,109	10,088,647	11,628,386
Selling and marketing expenses	20	(3,294,275)	(2,606,585)	(6,485,996)	(6,476,218)
Net income before zakat and income tax		32,447,459	32,477,380	68,298,487	66,528,568
Zakat and income tax	12	(3,703,426)	(2,947,137)	(7,071,299)	(6,485,958)
Zakat and income tax for previous periods	7.2	4,429,443	-	4,429,443	(914,495)
Deferred tax	13	(1,874,485)	(241,049)	(2,000,600)	(368,919)
Net income for the period		31,298,991	29,289,194	63,656,031	58,759,196
Other comprehensive loss					
<i>Item that cannot be reclassified to the statement of income in subsequent periods:</i>					
Actuarial losses on end of service benefits	15	(94,051)	(9,482)	(159,870)	(134,910)
Total comprehensive income for the period		31,204,940	29,279,712	63,496,161	58,624,286
Basic and diluted earnings per share (Saudi Riyal)	22	0.32	0.29	0.64	0.59



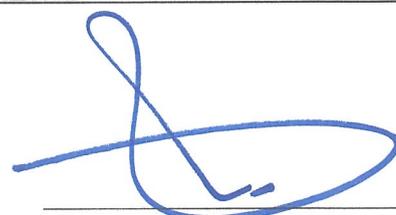
Yousef Al Shalash

Chairman



Bandar Al Ghamdi

Chief Executive Officer



Muath Jabr

Chief Financial Officer

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

SAUDI HOME LOANS COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONDENSED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2022

(Expressed in Saudi Riyal)

For the six month period ended 30 June 2022 (Unaudited)

Notes	Share capital	Statutory reserve	Other reserve	Retained earnings	Total shareholders' equity
	1,000,000,000	116,479,630	1,829,576	571,624,922	1,689,934,128
	-	-	-	63,656,031	63,656,031
15	-	-	(159,870)	-	(159,870)
	-	-	(159,870)	63,656,031	63,496,161
18	-	3,235,704	-	(3,235,704)	-
19	-	-	-	(77,400,000)	(77,400,000)
	1,000,000,000	119,715,334	1,669,706	554,645,249	1,676,030,289

Balance at beginning of the period

Net income for the period

Actuarial losses on end of service benefits

Total comprehensive income for the period

Transfer to statutory reserve

Dividend paid

Balance at end of the period

For the six month period ended 30 June 2021 (Unaudited)

Notes	Share capital	Statutory reserve	Other reserve	Retained earnings	Total shareholders' equity
	1,000,000,000	106,160,070	1,157,460	478,748,883	1,586,066,413
	-	-	-	58,759,196	58,759,196
15	-	-	(134,910)	-	(134,910)
	-	-	(134,910)	58,759,196	58,624,286
18	-	5,875,920	-	(5,875,920)	-
	1,000,000,000	112,035,990	1,022,550	531,632,159	1,644,690,699

Balance at beginning of the period

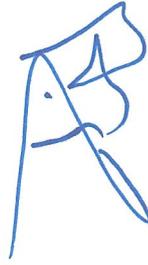
Net income for the period

Actuarial losses on end of service benefits

Total comprehensive income for the period

Transfer to statutory reserve

Balance at end of the period



Yousef Al Shalash

Chairman



Bandar Al Ghamdi

Chief Executive Officer



Muath Jabr

Chief Financial Officer

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SAUDI HOME LOANS COMPANY
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CONDENSED INTERIM STATEMENT OF CASH FLOWS
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2022
(Expressed in Saudi Riyal)

	For the six month period ended June 30 (unaudited)	
	2022	2021
OPERATING ACTIVITIES		
Net income before zakat and income tax	68,298,487	66,528,568
<i>Adjustments to net income before zakat and income tax</i>		
Depreciation and amortisation	2,305,812	2,219,333
Amortisation of deferred origination fees	2,011,260	1,843,986
Fair value gain on derivatives	(21,624,090)	-
Impairment loss on real estate assets	101,028	60,165
Write off and reversal of expected credit losses	(10,088,647)	(11,628,386)
Provision for end of service benefits	850,884	848,549
Amortization of discount on lease liability	320,105	191,216
<i>Net (increase)/decrease in operating assets:</i>		
Other receivables, net	5,919,858	6,017,096
Prepaid expenses and other assets, net	1,320,295	3,354,188
Due from a related party	(66,582)	(546,558)
Advances to property owners	(8,872,452)	(10,204,484)
Investments in finance lease	154,507,762	(5,528,450)
Murabaha receivables	(160,959,371)	(4,671,943)
<i>Net increase/(decrease) in operating liabilities:</i>		
Accounts payable	4,347,388	(1,888,603)
Accrued expenses and other liabilities	3,126,704	3,774,305
Advance lease rentals	2,756,652	4,970,452
Net cash from operations	44,255,093	55,339,434
Zakat and income tax paid	(14,363,918)	(13,348,768)
End of service benefits paid	(206,545)	(329,615)
Deferred origination fees paid	-	(62,335)
Net cash generated from operating activities	29,684,630	41,598,716
INVESTING ACTIVITIES		
Purchase of property and equipment	(206,525)	(550,508)
Proceeds from disposal of property and equipment	397,303	-
Purchase of intangible assets	(14,400)	(147,659)
Net cash generated from / (used in) investing activities	176,378	(698,167)
FINANCING ACTIVITIES		
Additions in Tawarruq financing facilities	154,803,255	103,243,893
Repayment of Tawarruq financing facilities	(165,859,060)	(176,246,689)
Payment of lease liability	(2,348,990)	(2,616,790)
Dividends paid	(77,400,000)	-
Net cash used in financing activities	(90,804,795)	(75,619,586)
Net decrease in cash and cash equivalents	(60,943,787)	(34,719,037)
Cash and cash equivalents at beginning of the period	214,467,647	142,327,982
Cash and cash equivalents at end of the period	153,523,860	107,608,945
NON-CASH TRANSACTIONS:		
Additions to right-of-use assets and lease liabilities	931,149	-
Income tax refund approved	4,429,443	-
Capital work-in-progress transferred to intangible assets and property and equipment	-	1,072,797

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

SAUDI HOME LOANS COMPANY
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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTH AND SIX MONTH PERIODS ENDED 30 JUNE 2022
(Expressed in Saudi Riyal unless otherwise stated)

1. ORGANIZATION AND ACTIVITIES

Saudi Home Loans Company (the "Company") is a Saudi joint stock company registered in Riyadh, Kingdom of Saudi Arabia under the commercial registration no. 1010241934 dated 22 Dhul Hijjah 1428H (corresponding to 1 January 2008), unified number (7001540165). The Company operates under Ministry of Investment license no: 102030072425-01 dated 23 Rajab 1430H (corresponding to 16 July 2009), also the Company is regulated and licensed by Saudi Central Bank ("SAMA") license no: 14/A SH/201403 dated 27 Rabi Al-Thani 1435H (corresponding to 27 February 2014) which will expire on 25 Rabi'II 1445H (corresponding to 9 November 2023). 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 are to finance the purchase of houses and residential land and apartments, financing of real estate properties and financing the establishment of commercial and industrial projects, except in Makkah and Madinah.

On 20 April 2022, the trading of the 30% listed share capital of the Company started on Saudi Stock Exchange ("Tadawul"). The Company's legal status also changed from Closed Joint Stock Company to Joint Stock Company.

Branches of the Company

As at June 30, 2022, and December 31, 2021, the Company operates through following branches. The accompanying condensed interim financial statements include the assets, liabilities and results of these branches. The details of these branches are as follows:

Branch	CR Number	Date
Jeddah Branch	4030289627	22/08/1437 H
Dammam Branch	2050109572	22/08/1437 H

2. BASIS OF PREPARATION

a) Statement of compliance

The condensed interim financial statements of the Company as at and for the three month and six month periods ended 30 June 2022 have been prepared in accordance with the International Accounting Standard 34: *Interim Financial Reporting* ("IAS 34") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA").

These condensed interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual financial statements as at 31 December 2021.

The results for the interim period of three month and six month periods ended June 30, 2022 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2022.

b) Basis of measurement and presentation

These financial statements have been prepared on a historical cost basis, except for the equity investment which is measured at fair value through other comprehensive income ("FVOCI"), end of

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTH AND SIX MONTH PERIODS ENDED 30 JUNE 2022
(Expressed in Saudi Riyal unless otherwise stated)

service benefits liability which is measured at present value of future obligations using the projected unit credit method and the derivative financial instruments that are valued using valuation techniques with market observable inputs at end of each reporting period.

c) Functional and presentation currency

These condensed interim 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.

2.1 New and amended International Financial Reporting Standards (“IFRSs”) Standards that are effective for the current period

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2022, have been adopted in these condensed interim financial statements.

The adoption has not had any material impact on the disclosures or on the amounts reported in these condensed interim financial statements.

New and revised IFRS	Summary
Reference to the Conceptual Framework (Amendments to IFRS 3)	The amendments update an outdated reference to the Conceptual Framework in IFRS 3 without significantly changing the requirements in the standard.
Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16)	The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.
Onerous Contracts — Cost of Fulfilling a Contract (Amendments to IAS 37)	The amendments specify that the ‘cost of fulfilling’ a contract comprises the ‘costs that relate directly to the contract’. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).
Annual Improvements to IFRS Standards 2018–2020	Makes amendments to the following standards: IFRS 1 - The amendment permits a subsidiary that applies paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent’s date of transition to IFRSs. IFRS 9 - The amendment clarifies which fees an entity includes when it applies the ‘10 per cent’ test in paragraph B3.3.6 of IFRS 9 in assessing whether to derecognise a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other’s behalf.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTH AND SIX MONTH PERIODS ENDED 30 JUNE 2022
(Expressed in Saudi Riyal unless otherwise stated)

	<p>IFRS 16 - The amendment to Illustrative Example 13 accompanying IFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.</p> <p>IAS 41 - The amendment removes the requirement in paragraph 22 of IAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.</p>
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2.2 New and revised IFRS in issue but not yet effective and not early adopted

At the date of authorisation of these condensed interim financial statements, the Company has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

New and revised IFRSs	Effective for annual periods beginning on or after
IFRS 17 Insurance contracts and amendments to IFRS 17	1 January 2023
Initial Application of IFRS 17 and IFRS 9 — Comparative Information (Amendment to IFRS 17)	When an entity first applies IFRS 17
Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4) . Entities reporting under IFRS 4 would be required to apply IFRS 9 for annual periods beginning on or after January 1, 2023.	1 January 2023
Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)	1 January 2023
Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)	1 January 2023
Definition of Accounting Estimates (Amendments to IAS 8)	1 January 2023
Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)	1 January 2023
Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) relating to the treatment of the sale or contribution of assets from an investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.

The management is in the process of assessing the potential financial impact of application and do not expect that the adoption of the standards listed above will have a material impact on the condensed interim financial statements of the Company in future periods.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTH AND SIX MONTH PERIODS ENDED 30 JUNE 2022
(Expressed in Saudi Riyal unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The accounting policies, judgements, estimates and assumptions used in the preparation of these condensed interim financial statements are consistent with those used in the preparation of the annual financial statements as at and for the year ended 31 December 2021, except as mentioned below:

Derivative financial instruments

The Company uses derivative financial instruments held at fair value through profit and loss ("FVTPL") to hedge its exposure to changes in interest rates on certain finance lease contracts. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from the changes in the fair value of derivatives are taken directly to the condensed interim statement of profit or loss and other comprehensive income. The Company does not apply hedge accounting.

4. CASH AND CASH EQUIVALENTS

	30 June 2022 (Unaudited)	31 December 2021 (Audited)
Cash in hand	22,000	22,000
Cash at bank	153,501,860	214,445,647
	153,523,860	214,467,647

As at each reporting date, all bank balances are assessed to have low credit risk as they are held with reputable and high credit rating banking institutions and there has been no history of default with any of the Company's bank balances. Therefore, the probability of default based on forward looking factors and any loss given defaults are considered to be negligible.

4.1 This balance represents the value of certified cheques issued under the property owner's name, for the purchase of properties under the approved Ijara and Murabaha contracts and for which the transfer of title deeds, in the name of the Company is under process. These certified cheques are submitted by official Company representatives directly at the government offices at the time of transfer of title deeds. Risk and rewards and control of such underlying properties is not transferred to the Company as of the reporting date and there is no contractual rights and obligation of Company as of the reporting date under such Ijara and Murabaha contracts.

5. RELATED PARTY TRANSACTIONS

The related parties of the Company include the shareholders and an affiliate (i.e., a company with a common shareholder), and key management personnel. In the ordinary course of business, the Company enters into transactions with its related parties, which are based on prices and contract term approved by the Company's management and on an agreed basis with these related parties:

Name	Relationship
Arab National Bank ("ANB")	Shareholder
International Financial Corporation ("IFC")	Shareholder
Kingdom Instalment Company	Shareholder
Dar Al Arkan	Shareholder
Tharwat Alasool Real Estate Company	Affiliate

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTH AND SIX MONTH PERIODS ENDED 30 JUNE 2022
(Expressed in Saudi Riyal unless otherwise stated)

The significant transactions during the period are as follows:

	For the three month period		For the six month period	
	30 June		30 June	
	(Unaudited)		(Unaudited)	
	2022	2021	2022	2021
Tawaruq financing charges (ANB)	13,390,170	11,626,483	25,592,626	24,026,868
Residential unit purchased (Dar Alarkan)	1,117,500	3,975,494	2,656,500	12,847,464
Service fees, net (ANB)	1,043,896	1,389,692	2,220,630	2,857,469
Tawaruq financing charges (IFC)	977,248	1,004,064	1,821,885	1,928,888
Rent charged (Tharwat Alasool Real Estate Company)	544,985	544,985	1,089,970	1,089,970
Deferred origination fees (ANB)	-	37,125	-	62,335

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

	30 June 2022 (Unaudited)	31 December 2021 (Audited)
Loan obtained from a shareholder (ANB) (note 14)	1,608,038,753	1,672,545,150
Loan obtained from a shareholder (IFC) (note 14)	93,991,607	109,517,304
Deferred origination fees (ANB)	16,193,584	18,204,844
Prepaid financing facility fees (IFC)	626,560	783,208
Due from a related party related to service fees (ANB)	806,315	739,733

Compensation of key management personnel (“KMP”)

KMP are those having authority and responsibility for planning, directing and controlling the activities of the Company. Accordingly, the Company’s KMP includes the Board of Directors (including executive and non-executive directors) and selected key employees who meet the above criteria.

The compensation details of Company’s KMP is provided below:

	For the three month period		For the six month period	
	30 June		30 June	
	(Unaudited)		(Unaudited)	
	2022	2021	2022	2021
Salaries	1,076,460	301,000	2,152,920	960,000
End of service benefits	50,705	25,083	101,410	80,000
Other allowances	297,976	81,563	595,951	292,105
	1,425,141	407,646	2,850,281	1,332,105

SAUDI HOME LOANS COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTH AND SIX MONTH PERIODS ENDED 30 JUNE 2022
(Expressed in Saudi Riyal unless otherwise stated)

6. PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses and other assets comprise of the following:

	30 June 2022 (Unaudited)	31 December 2021 (Audited)
Advance tax	1,167,466	3,348,312
Prepaid financing facility fees	2,865,935	3,446,333
Prepaid Insurance	1,332,531	1,047,527
Prepaid software maintenance	1,443,162	968,923
Prepaid cyber security payments	1,115,070	388,231
Others	709,455	754,588
	8,633,619	9,953,914

7. OTHER RECEIVABLES, NET

	30 June 2022 (Unaudited)	31 December 2021 (Audited)
	Note	
Insurance claims receivable on deceased case leases	43,510,135	47,626,621
Legal claims	9,630,332	8,321,026
Income tax receivable	7.2 4,429,443	-
VAT receivable	6,123,336	6,140,137
Due from Saudi Real Estate Refinance Company ("SRC")	-	206,430
Deferred expenses	-	2,594,633
Employees' advances and receivables	137,191	114,250
	63,830,437	65,003,097
Allowance against insurance and legal claims	(28,399,719)	(28,123,458)
	35,430,718	36,879,639

Allowance against insurance and legal claims comprise the following:

	30 June 2022 (Unaudited)	31 December 2021 (Audited)
Allowance against insurance claims receivable on deceased case leases	24,869,387	24,910,881
Allowance against legal claims	3,530,332	3,212,577
	28,399,719	28,123,458

All insurance claims receivable on rejected deceased case leases are fully provided. The Company has initiated legal actions in courts to repossess the leased properties.

7.2 During May 2022, the Company received an approval from Zakat, Tax and Custom authority to refund an amount of SR 4.43 million which relates to prior years income tax adjustments.

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8. INVESTMENTS IN FINANCE LEASE, NET

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

	30 June 2022 (Unaudited)	31 December 2021 (Audited)
Investments in finance lease, gross	5,907,888,829	6,200,514,939
Less: Unearned finance income	(1,993,856,283)	(2,123,208,607)
Investments in finance lease before ECL	3,914,032,546	4,077,306,332
Less: Allowance for ECL	(47,699,510)	(64,003,238)
Investments in finance lease, net	3,866,333,036	4,013,303,094

Total number of outstanding lease agreements as at 30 June 2022 is 6,591 (31 December 2021: 6,827).

The Company generates substantially all of its revenues from leasing real estate in the Kingdom of Saudi Arabia. Amounts due in relation to the finance leases are due from individual customers.

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

	30 June 2022 (Unaudited)	31 December 2021 (Audited)
Balance at the beginning of the period	64,003,238	82,430,269
Reversal during the period/year	(16,303,728)	(18,427,031)
Balance at the end of the period	47,699,510	64,003,238

During the three month and six month periods ended June 30, 2022, the Company has written off an amount of SR 3.88 million and SR 5.6 million respectively directly in the statement of profit or loss and other comprehensive income as required by New SAMA rules governing credit risk exposure classification and provisioning.

8.2 The credit quality of investments in finance lease is as follows:

30 June 2022 (Unaudited)	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Investments in finance lease before ECL	3,441,668,424	252,582,101	219,782,021	3,914,032,546
Allowance for ECL	(1,494,331)	(6,158,523)	(40,046,656)	(47,699,510)
Net carrying amount	3,440,174,093	246,423,578	179,735,365	3,866,333,036
31December2021(Audited)	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Investments in finance lease before ECL	3,553,703,369	283,026,793	240,576,170	4,077,306,332
Allowance for ECL	(1,433,525)	(6,905,996)	(55,663,717)	(64,003,238)
Net carrying amount	3,552,269,844	276,120,797	184,912,453	4,013,303,094

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8.3 Maturity profile of the lease receivables is as follows:

Year	30 June 2022 (unaudited)			31 December 2021 (audited)
	Gross lease receivables	Unearned finance income	Investments in finance lease	Investments in finance lease
Within one year	439,756,548	108,227,736	331,528,812	334,840,996
Year two	512,729,646	221,160,078	291,569,568	291,319,632
Year three	491,427,227	202,162,616	289,264,611	291,056,331
Year four	467,644,689	183,547,135	284,097,554	283,734,145
Year five and later	3,996,330,719	1,278,758,718	2,717,572,001	2,876,355,228
	5,907,888,829	1,993,856,283	3,914,032,546	4,077,306,332

8.4 The ageing of gross lease receivables which are past due is as follows:

	June 30, 2022 (Unaudited)	December 31, 2021 (Audited)
1 - 3 months	14,296,686	14,202,528
4 - 6 months	1,242,203	757,270
7 - 12 months	851,481	585,516
Over 12 months	41,460,125	43,002,088
	57,850,495	58,547,402

The not yet due portion of above overdue lease receivables as at 30 June 2022 amounts to SR 1,885,465,138 (31 December 2021: SR 1,940,721,970).

The Company in ordinary course of its business, holds collateral in respect of the finance lease receivables (being the title of properties leased out) in order to mitigate the credit risk associated with them. These collaterals (i.e. real estate) are not readily convertible into cash and are accepted by the Company with intent to dispose-off in case of customer default.

9. MURABAHA RECEIVABLES, NET

	30 June 2022 (Unaudited)	31 December 2021 (Audited)
Murabaha receivables, gross	357,806,035	115,402,936
Less: Unearned finance income	(121,989,536)	(40,545,808)
Murabaha receivables before ECL	235,816,499	74,857,128
Less: Allowance for ECL	(409,692)	(70,991)
Murabaha receivables, net	235,406,807	74,786,137

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

	30 June 2022 (Unaudited)	31 December 2021 (Audited)
Balance at the beginning of the period	70,991	-
Charge for the period	338,701	70,991
Balance at the end of the period	409,692	70,991

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Maturity profile of the Murabaha receivables is as follows:

<u>Year</u>	30 June 2022 (Unaudited)			31 December 2021 (Audited)
	Minimum Murabaha receivables	Unearned finance income	Murabaha receivables, net	Murabaha receivables, net
Within one year	24,723,108	12,872,336	11,850,772	2,948,634
Year two	24,313,417	12,095,512	12,217,905	3,126,968
Year three	24,313,417	11,260,366	13,053,051	3,317,132
Year four	24,313,417	9,240,916	15,072,501	3,519,999
Year five and later	260,142,676	76,520,406	183,622,270	61,944,395
	357,806,035	121,989,536	235,816,499	74,857,128

The ageing of gross Murabaha receivables which are past due is as follows:

	30 June 2022 (Unaudited)	31 December 2021 (Audited)
1 - 3 months	221,453	87,626

The not yet due portion of above overdue Murabaha receivables as at 30 June 2022 amounts to SR 44,433,201 (31 December 2021: SR 18,369,810). The Company's exposure as of 30 June 2022 is mainly classified as stage 1.

10. ACCOUNTS PAYABLE

Accounts payable includes amounts pertaining to VAT payable to Zakat, Tax and Customs Authority ("ZATCA") and payable for evaluation and other services provided to the Company.

11. ACCRUED EXPENSES AND OTHER LIABILITIES

	30 June 2022 (Unaudited)	31 December 2021 (Audited)
Employees' related expenses	6,318,542	6,875,322
Accrued insurance expenses	4,336,804	-
Accrued annual maintenance charges	2,319,623	3,013,577
Provision for maintenance on finance lease contracts	453,776	469,071
Accrued legal and consultation fees	478,300	492,500
Servicing right liability	334,617	347,195
Accrued brokerage fees	57,488	57,488
Others	494,480	411,773
Total	14,793,630	11,666,926

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12. PROVISION FOR ZAKAT AND INCOME TAX

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

	30 June 2022 (Unaudited)	31 December 2021 (Audited)
Balance at the beginning of the period	22,618,176	24,644,795
Provision for zakat for the current period	5,357,417	9,694,054
Provision for tax for the previous periods	-	914,495
Provision for income tax for the current period	1,713,882	4,772,292
Payment during the period	(14,363,918)	(17,407,460)
Balance at the end of the period	15,325,557	22,618,176

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

Status of assessment

The years from 2008 to 2013 were closed based on settlement agreed with the Zakat, tax and Customs Authority ("ZATCA"). In February 2019, the Company received a settlement agreement from ZATCA to settle the outstanding assessments relating to zakat for the financial years 2014 to 2017 and provided a settlement calculation method for 2018. The Company accepted this settlement agreement and the remaining balance payable as part of this settlement as at 30 June 2022 is SR 8.12 million (31 December 2021: SR 8.12 million).

13. DEFERRED TAX

	30 June 2022 (Unaudited)	31 December 2021 (Audited)
Balance at the beginning of the period	4,402,330	4,837,338
Movement during the period	(2,000,600)	(435,008)
Balance at end of the period	2,401,730	4,402,330

The Company's deferred tax assets arise primarily from expected credit losses.

14. TAWARRUQ FINANCING FACILITIES

	30 June 2022 (Unaudited)	31 December 2021 (Audited)
Current portion of facilities	394,934,119	702,791,374
Non-current portion of facilities	2,242,281,335	1,946,175,830
Total excluding financial charges	2,637,215,454	2,648,967,204
Accrued Tawarruq financing charges	4,803,256	4,107,311
	2,642,018,710	2,653,074,515

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The following summarises the outstanding Tawarruq financing facilities from different banks and Saudi Real State Refinance Company ("SRC") to finance the investments in finance lease as follows:

	30 June 2022 (Unaudited)	31 December 2021 (Audited)
ANB	1,608,038,753	1,672,545,150
Gulf International Bank ("GIB")	390,362,391	411,908,999
IFC	93,991,607	109,517,304
Saudi National Bank	348,068,773	357,742,546
SRC	201,557,186	101,360,516
	<u>2,642,018,710</u>	<u>2,653,074,515</u>

All facilities are secured by promissory notes and assignment of contracts and proceeds from investments in finance lease, these facilities bear finance charges at interest margin plus market variable rates. Facility repayment schedule is based on equal semi-annual or quarter payment.

15. END OF SERVICE BENEFITS

The Company operates an end of service benefit plan for its staff based on prevailing Saudi Labor Laws. The movements in the present value of defined benefit obligation is as follows:

	30 June 2022 (Unaudited)	31 December 2021 (Audited)
Defined benefit obligation at the beginning of the period	8,598,413	8,371,800
Current service cost	728,561	1,527,171
Interest cost on defined benefit obligation	122,323	180,353
Benefits paid to outgoing employees	(206,545)	(808,795)
Actuarial losses/(gains) on obligation	159,870	(672,116)
Defined benefit obligation at the end of the period	<u>9,402,622</u>	<u>8,598,413</u>

16. DERIVATIVES

The Company has entered into an Interest Rate Swap ("IRS") facility to hedge its interest rate exposure on certain finance lease contract. However, it does not currently apply hedge accounting treatment. The positive fair value of the IRS as at 30 June 2022 was SR 21,624,090, with a notional amount of SR 200 million. The notional amount provides an indication of the volumes of the transactions outstanding at the end of the period and does not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Company's exposure to credit risk nor market risk.

Derivatives are valued using valuation techniques with market observable inputs. The fair value of interest rate swaps is generally calculated as the present value of the estimated future cash flows using the curves at the reporting date and adjusted to reflect the credit risk of the counterparties.

17. SHARE CAPITAL

The authorised, issued and fully paid share capital of the Company consists of 100 million shares of SR 10 each.

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During the three month period ended June 30, 2022, the Company floated 30% of its existing share capital on Tadawul and the trading started on April 20, 2022. Following the listing, the revised shareholding of the Company is as follows:

	Number of shares of SR 10 each	Share capital
ANB	29,400,000	294,000,000
Dar Al Arkan Real Estate Development Company	10,500,000	105,000,000
Kingdom Instalment Company	6,300,000	63,000,000
Youssef bin Abdullah Al Shalash	5,600,000	56,000,000
Public and others (listed on Tadawul)	48,200,000	482,000,000
	<u>100,000,000</u>	<u>1,000,000,000</u>

As at December 31, 2021, the shareholding of the Company was as follows:

	Number of shares of SR 10 each	Share capital
ANB	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
IFC	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
	<u>100,000,000</u>	<u>1,000,000,000</u>

18. STATUTORY RESERVE

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

19. DIVIDENDS DISTRIBUTION

On 29 May 2022, The Board of Directors, based on the authorization of the general assembly held on 5 April 2022, resolved to approve a distribution of cash dividend of SR 77,400,000 to the shareholders of the Company. The dividend was paid on 14 June 2022.

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20. SELLING AND MARKETING EXPENSES

	For the three month period ended June 30 (Unaudited)		For the six month period ended June 30 (Unaudited)	
	2022	2021	2022	2021
Sales and title commission	1,105,793	714,630	2,192,591	2,239,079
Evaluation fees	725,790	837,950	1,309,646	2,096,028
Origination expenses	949,818	864,901	2,011,260	1,843,986
Marketing expenses	210,924	120,105	262,173	159,125
Others	301,950	68,999	710,326	138,000
	3,294,275	2,606,585	6,485,996	6,476,218

21. GENERAL AND ADMINISTRATIVE EXPENSES

	For the three month period ended June 30 (Unaudited)		For the six month period ended June 30 (Unaudited)	
	2022	2021	2022	2021
Employees' salaries and other benefits	13,968,665	13,480,964	27,475,124	26,352,811
Insurance expenses	5,872,050	6,009,755	11,786,435	12,043,664
Consultation fees	1,354,354	2,552,869	2,437,294	3,286,210
Depreciation and amortisation	1,159,918	1,213,129	2,305,812	2,219,333
Software support charges	572,669	1,055,096	1,565,558	1,484,216
Collection commission	706,825	701,400	1,290,575	1,362,050
VAT expense	553,989	660,786	1,411,707	1,761,387
Telecommunication expenses	305,000	222,052	615,687	432,052
Bank charges	106,247	102,290	216,643	207,450
Printing and stationary	47,848	46,300	89,010	95,283
Travel expenses	70,311	41,036	138,382	165,792
Recruitment related expenses	63,055	40,398	89,186	78,321
Withholding tax	18,269	31,007	35,610	42,589
Repairs and maintenance	98,999	29,098	171,748	116,465
Others	737,847	333,191	1,059,407	943,201
	25,636,046	26,519,371	50,688,178	50,590,824

22. EARNINGS PER SHARE

The basic and diluted earnings per share have been computed by dividing net profit after zakat and income tax for the period by the weighted average number of shares outstanding during the period.

23. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for asset or liability, the principal or the most advantageous market is accessible by the Company.

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Financial instruments comprise mainly of cash and cash equivalents, due from related parties, other receivables, investment held at FVOCI, derivatives, investments in finance leases, murabaha receivables, Tawarruq financing facilities, accounts payable and lease liabilities.

All financial assets and financial liabilities are measured at amortized cost except for derivative financial instrument classified as FVTPL.

Investment classified as held at FVOCI is measured at cost as measurement of fair value would entail undue cost and efforts and any changes are not expected to be material to the condensed interim financial statements.

Tawarruq financing facilities bear floating rate of interest based on SIBOR and hence, there is no material difference between the carrying value and fair value.

The fair values of the financial instruments are not materially different from their carrying amounts except for the finance lease receivables and Murabaha receivables measured at amortized cost.

Fair value hierarchy

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

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

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

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

The fair value of interest rate swaps is generally calculated using level 2 techniques as the present value of the estimated future cash flows using the curves at the reporting date and adjusted to reflect the credit risk of the counterparties.

24. PURCHASE AND AGENCY AGREEMENT

The Company has entered into Portfolio Purchase Agreements and Servicing Agreements (collectively referred to as the "Agreements") with SRC. Under the terms of these Agreements, the Company first sells eligible receivables to SRC and then manages them on behalf of SRC as an agent for a monthly fee as per the terms of the Servicing Agreements. Upon sale, the Company derecognizes the receivables from its books and recognizes the difference as either gain or loss on derecognition of receivables.

During the six month period ended 30 June 2022, the Company sold SR 38.98 million (31 December 2021: SR 266.67 million) of its outstanding principal balances and the total amount received from SRC in respect of such sale was SR 39.26 million (31 December 2021: SR 272.45 million). Net gain recognized on derecognition of these receivables is SR 0.23 million during the six month period ended 30 June 2022 (30 June 2021: SR 2.18 million).

The expected remaining collections from derecognized receivables as at 30 June 2022 is SR 526.67 million (31 December 2021: SR 483.19 million). The present value of net servicing liability as at 30 June 2022 is SR 334,617 (31 December 2021: SR 347,195)

In 2014, the Company also entered into Leased Assets Sale Agreements and Service Agreements with ANB, a shareholder and sold eligible lease agreements with all associated rights and obligations to ANB and then services them on behalf of ANB as an agent for a monthly fee as per the terms of

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the Service Agreements. The services mainly relate to arranging insurance coverage for the entire period of the lease agreements sold and in respect of coverage of no less than the outstanding principal balance. The Company has contractually transferred the rights to cashflows of the sold contracts.

The Company recognized servicing fee income of SR 2.22 million during the six month period 30 June 2022 (30 June 2021: SR 2,86 million)

25. COMMITMENT AND CONTINGENCIES

The Company during its normal activity face certain lawsuits and claims related to the nature of its business. However, significant claims are not expected to result from the outstanding lawsuits as at the reporting date.

26. IMPACT OF COVID-19 ON EXPECTED CREDIT LOSSES (“ECL”)

The COVID-19 pandemic continues to disrupt global markets as many geographies are experiencing multiple waves of infections despite having previously controlled the outbreak through aggressive precautionary measures. The Government of Kingdom of Saudi Arabia (the “Government”) however has managed to successfully control the outbreak to date.

During 2020, the management performed a detailed assessment to ascertain the impact of the pandemic and resultant government and SAMA support measures, such as repayment holidays and other mitigating packages, have had on the financing portfolio.

The Company continues to evaluate the current situation and its impact on key credit, liquidity, operational and solvency ratios and performance indicators in addition to other risk management practices. The evaluation of current situation also takes into consideration the impact of the government and SAMA support relief programs.

The Company’s ECL model continues to be sensitive to macroeconomic variables and scenario weightings. To the extent that certain effects cannot be fully incorporated into the ECL model calculations at this point in time, management continues to exercise expert credit judgement to estimate ECL by considering reasonable and supportable information not already included in the quantitative models. As with any forecasts, the projections and likelihoods of occurrence are underpinned by significant judgement and uncertainty and therefore, the actual outcomes may be different to those projected. The impact of such uncertain economic environment is judgmental, and the Company will continue to reassess its position and the related impact on a regular basis.

It continues to be challenging to reliably ascertain the specific effects the pandemic and the government and SAMA support measures, such as the repayment holidays and other mitigating packages, will have. The Company has therefore concluded that it is too early for any potential credit impairment to be reflected through the application of the staging criteria and has instead put more emphasis on the macroeconomic model underpinning the PD and LGD determinations. The Company will continue to individually assess significant counterparty exposures as more reliable data becomes available and accordingly determine if any adjustment in the ECL is required in subsequent reporting periods.

27. APPROVAL OF THE BOARD OF DIRECTORS

These financial statements were approved by the Board of Directors on 3 Muharram 1444H (corresponding to 1 August 2022).