

SHL FINANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

**CONDENSED INTERIM FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REVIEW REPORT
FOR THE THREE MONTH AND NINE MONTH PERIODS
ENDED 30 SEPTEMBER 2024**

SHL FINANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

**CONDENSED INTERIM FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REVIEW REPORT
FOR THE THREE MONTH AND NINE MONTH PERIODS ENDED 30 SEPTEMBER 2024**

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INDEPENDENT AUDITOR'S REVIEW REPORT ON CONDENSED INTERIM FINANCIAL STATEMENTS

To the shareholders
SHL Finance Company
(A Saudi Joint Stock Company)
Riyadh, Saudi Arabia

Introduction

We have reviewed the accompanying condensed interim statement of financial position of SHL Finance Company (A Saudi Joint Stock Company) (the "Company") as at 30 September 2024 and the related condensed interim statement of profit or loss and other comprehensive income for the three month and nine month periods then ended and the related statements of changes in shareholders' equity and cashflows for the nine month period then ended and explanatory notes (collectively referred to as the "condensed interim financial statements"). Management is responsible for the preparation and presentation of these condensed interim financial statements 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 these condensed interim financial statements 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" as 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 as 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 condensed interim financial statements are not prepared, in all material respects, in accordance with IAS 34 as endorsed in the Kingdom of Saudi Arabia.

Deloitte and Touche & Co.
Chartered Accountants



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



25 Rabi Al-Akhar 1446H
28 October 2024

SHL FINANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2024

(Expressed in thousands of Saudi Riyal unless otherwise stated)

	Notes	30 September 2024 (Unaudited)	31 December 2023 (Audited)
ASSETS			
Cash and cash equivalents	4	144,713	80,272
Due from a related party	5	587	504
Prepaid expenses and other assets	6	13,397	9,447
Other receivables, net	7	18,057	25,639
Deferred origination fees		10,330	12,105
Investments in finance lease, net	8	3,540,362	3,605,571
Murabaha receivables, net	9	735,561	577,590
Positive fair value of derivative financial instrument	16	-	26,947
Investment held at fair value through other comprehensive income ("FVOCI")		893	893
Other real estate, net		52,204	34,264
Right-of-use asset		949	2,860
Property and equipment, net		3,175	3,891
Intangible assets, net		1,837	1,619
Deferred tax	13	1,738	1,757
TOTAL ASSETS		4,523,803	4,383,359
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Accounts payable and other liabilities	10	3,413	14,523
Accrued expenses and other liabilities	11	13,848	15,028
Advance lease rentals		14,942	11,183
Lease liability		282	2,684
Provision for zakat and income tax	12	3,482	526
Tawarruq financing facilities	14	2,799,565	2,667,085
End of service benefits	15	11,220	11,677
Total liabilities		2,846,752	2,722,706
Shareholders' equity			
Share capital	17	1,000,000	1,000,000
Statutory reserve		126,301	126,301
Other reserve		2,364	1,733
Retained earnings		548,386	532,619
Total shareholders' equity		1,677,051	1,660,653
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		4,523,803	4,383,359



Chairman



Chief Executive Officer



Chief Financial Officer

The accompanying notes from (1) to (24) are an integral part of these condensed interim financial statements

SHL FINANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

**CONDENSED INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE THREE MONTH AND NINE MONTH PERIODS ENDED 30 SEPTEMBER 2024**

(Expressed in thousands of Saudi Riyal unless otherwise stated)

	Notes	For the three month period ended 30 September (unaudited)		For the nine month period ended 30 September (unaudited)	
		2024	2023	2024	2023
Finance income		88,137	75,373	260,527	218,394
Service fees, net	22	859	1,060	2,665	3,367
Application and evaluation fee income		(29)	465	1,700	870
Origination expenses		(597)	(849)	(1,718)	(2,894)
Total revenue		88,370	76,049	263,174	219,737
Fair value loss on derivative financial instrument	16	-	5,181	(947)	5,181
Other income		303	1,062	1,654	5,087
Total operating income		88,673	82,292	263,881	230,005
Direct cost		(5,954)	(5,308)	(17,439)	(15,982)
Finance charges		(52,581)	(45,332)	(157,680)	(137,535)
General and administrative expenses	19	(22,334)	(25,134)	(66,677)	(67,402)
(Impairment loss)/reversal of impairment losses		(236)	782	762	4,567
Selling and marketing expenses	18	(1,157)	(1,693)	(3,115)	(3,743)
Total operating expenses		(82,262)	(76,685)	(244,149)	(220,095)
Net income before zakat and income tax		6,411	5,607	19,732	9,910
Zakat and income tax	12	(1,356)	(792)	(3,946)	(2,217)
Income tax refund for previous periods	12	-	-	-	2,313
Deferred tax	13	57	(46)	(19)	(196)
Net income for the period		5,112	4,769	15,767	9,810
Other comprehensive income/loss <i>Item that cannot be reclassified to the statement of profit or loss in subsequent periods:</i>					
Actuarial gains/(losses) on end of service benefits	15	320	460	631	(278)
Total comprehensive income for the period		5,432	5,229	16,398	9,532
Basic and diluted earnings per share (Saudi Riyal)	20	0.05	0.05	0.16	0.10


Chairman


Chief Executive Officer


Chief Financial Officer

The accompanying notes from (1) to (24) are an integral part of these condensed interim financial statements

SHL FINANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONDENSED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2024
(Expressed in thousands of Saudi Riyal unless otherwise stated)

For the nine month period ended 30 September 2024 (Unaudited)					
Notes	Share Capital	Statutory Reserve	Other reserve	Retained Earnings	Total shareholders' equity
Balance at beginning of the period	1,000,000	126,301	1,733	532,619	1,660,653
Net income for the period	-	-	-	15,767	15,767
Actuarial gains on end of service benefits	-	-	631	-	631
Total comprehensive income for the period	-	-	631	15,767	16,398
Balance at end of the period	1,000,000	126,301	2,364	548,386	1,677,051

For the nine month period ended 30 September 2023 (Unaudited)					
	Share capital	Statutory Reserve	Other reserve	Retained Earnings	Total shareholders' Equity
Balance at beginning of the period	1,000,000	126,069	2,124	580,526	1,708,719
Net income for the period	-	-	-	9,810	9,810
Actuarial losses on end of service benefits	-	-	(278)	-	(278)
Total comprehensive income for the period	-	-	(278)	9,810	9,532
Dividend declared during the period	-	-	-	(50,000)	(50,000)
Balance at end of the period	1,000,000	126,069	1,846	540,336	1,668,251




 Chairman Chief Executive Officer Chief Financial Officer

The accompanying notes from (1) to (24) are an integral part of these condensed interim financial statements

SHL FINANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONDENSED INTERIM STATEMENT OF CASH FLOWS
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2024
(Expressed in thousands of Saudi Riyal unless otherwise stated)

	For the nine month period ended 30 September (unaudited)	
	2024	2023
OPERATING ACTIVITIES		
Net income before zakat and income tax	19,732	9,910
Adjustments to net income before zakat and income tax		-
Depreciation and amortisation	3,347	3,376
Amortisation of deferred origination fees	1,775	2,894
Fair value loss on derivative financial instrument	947	(5,181)
Reversal of impairment losses	(762)	(4,567)
Provision for end of service benefits	1,694	1,545
Amortization of discount on lease liability	116	268
Finance charges	157,680	137,535
<u>Net (increase)/decrease in operating assets:</u>		
Other receivables, net	9,854	3,950
Prepaid expenses and other assets, net	(2,151)	352
Due from a related party	(83)	95
Investments in finance lease	50,509	153,610
Murabaha receivables	(162,721)	(144,769)
Derivative financial instrument	26,000	-
Restricted bank balances	-	42,200
<u>Net increase/(decrease) in operating liabilities:</u>		
Accounts payable and other liabilities	(11,110)	(1,712)
Accrued expenses and other liabilities	(1,180)	(6,920)
Advance lease rentals	3,759	8,774
Net cash from operations	97,406	201,360
Zakat and income tax paid	(2,788)	(9,934)
Zakat and income tax refund	-	7,883
End of service benefits paid	(1,520)	(358)
Net cash generated from operating activities	93,098	198,951
INVESTING ACTIVITIES		
Purchase of property and equipment	(339)	(1,233)
Proceeds from disposal of property and equipment	26	-
Purchase of intangible assets	(625)	(109)
Net cash used in investing activities	(938)	(1,342)
FINANCING ACTIVITIES		
Additions in Tawarruq financing facilities	270,909	235,000
Repayment of Tawarruq financing facilities	(143,193)	(161,100)
Finance charges paid	(152,917)	(130,832)
Lease liability paid - principal portion	(2,402)	(2,550)
Lease liability paid - interest portion	(116)	(268)
Dividend paid	-	(49,978)
Net cash used in financing activities	(27,719)	(109,728)
Net change in cash and cash equivalents	64,441	87,881
Cash and cash equivalents at beginning of the period	80,272	42,847
Cash and cash equivalents at end of the period	144,713	130,728

Chairman

Chief Executive Officer

Chief Financial Officer

The accompanying notes from (1) to (24) are an integral part of these condensed interim financial statements

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTH AND NINE MONTH PERIODS ENDED 30 SEPTEMBER 2024
(Expressed in thousands Saudi Riyal unless otherwise stated)

1. ORGANIZATION AND ACTIVITIES

SHL Finance Company (the "Company") is a Saudi joint stock Company which was 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 is regulated, controlled and licensed by Saudi Central Bank ("SAMA") license no: 14/A SH/201403 dated 27 Rabi Al-Thani 1435H (corresponding to 27 February 2014). The address of the Company is as follows:

SHL Finance 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. During 2023, the Company has also obtained license from SAMA to practice the financing of small and medium enterprise activities and consumer financing activities.

On 14 February 2023, in an extra-ordinary general assembly meeting, the shareholders of the Company have resolved to change the name of the Company to SHL Finance Company from Saudi Home Loans Company.

The Company has also updated its bylaws to reflect the above changes.

The Ministry of Commerce and Investment (MC) of the Kingdom of Saudi Arabia has issued new Regulations for Companies, effective 19 January 2023 with a grace period of two for implementation. The management of the Company is in the process of assessing the potential impact of implementation of the new regulations on the Company, if any, and expects to be fully compliant with the new regulations by the end of the grace period which is 17 January 2025.

Branches of the Company

As at 30 September 2024 and 31 December 2023, 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:

<u>Branch</u>	<u>CR Number</u>	<u>Date</u>
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 nine month periods ended 30 September 2024 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 2023.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTH AND NINE MONTH PERIODS ENDED 30 SEPTEMBER 2024
(Expressed in thousands Saudi Riyal unless otherwise stated)

2. BASIS OF PREPARATION (continued)

a) Statement of compliance (continued)

The results for the interim period of three month and nine month periods ended 30 September 2024 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2024.

b) Basis of measurement and presentation

These interim condensed financial statements are prepared under the historical cost convention using the accrual basis of accounting and the going concern assumption, except for the following:

Items	Measurement bases
Employee benefits liabilities	Present value of the defined benefit obligation, using actuarial present value calculations based on projected unit credit method.
Investment classified as fair value through other comprehensive income ("FVOCI")	The investment is carried at cost.
Derivative financial instrument	These are valued using valuation techniques with market observable inputs at end of each reporting period.
Other real estate properties	These are carried at lower of outstanding receivables net of expected credit losses from customer at amortized cost and fair value of the property.

Investment classified as FVOCI is measured at cost as measurement of fair value would entail undue cost and efforts.

c) Functional and presentation currency

These condensed interim financial statements are presented in thousands of Saudi Riyals (except when otherwise indicated), which is the functional and presentation currency of the Company.

The figures in condensed interim financial statements for the three month and nine month periods ended 30 September 2024 and the annual financial statements for the year ended 31 December 2023 were rounded to nearest Saudi Riyal.

2.1 New and amended International Financial Reporting Standards ("IFRSs") 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 2024, 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.

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTH AND NINE MONTH PERIODS ENDED 30 SEPTEMBER 2024**
(Expressed in thousands Saudi Riyal unless otherwise stated)

2. BASIS OF PREPARATION (continued)

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

Standard, interpretation, amendments	Description	Effective date
Amendment to IFRS 16 – Leases on sale and leaseback	These amendments include requirements for sale and leaseback transactions in IFRS 16 to explain how an entity accounts for a sale and leaseback after the date of the transaction. Sale and leaseback transactions where some or all the lease payments are variable lease payments that do not depend on an index or rate are most likely to be impacted.	January 1, 2024
Amendments to IAS 7 and IFRS 7 on Supplier finance arrangements	These amendments require disclosures to enhance the transparency of supplier finance arrangements and their effects on a company’s liabilities, cash flows and exposure to liquidity risk. The disclosure requirements are the IASB’s response to investors’ concerns that some companies’ supplier finance arrangements are not sufficiently visible, hindering investors’ analysis.	January 1, 2024
Amendment to IAS 1 – Non-current liabilities with covenants	These amendments clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. The amendments also aim to improve information an entity provides related to liabilities subject to these conditions.	January 1, 2024

Accounting standards issued but still subject to the endorsement by SOCPA

Standard, interpretation, amendments	Description	Effective date
IFRS S1, ‘General requirements for disclosure of sustainability-related financial information	This standard includes the core framework for the disclosure of material information about sustainability-related risks and opportunities across an entity’s value chain.	Effective date is 1 January 2024 Subject to the endorsement by SOCPA
IFRS S2, ‘Climate-related disclosures	This is the first thematic standard issued that sets out requirements for entities to disclose information about climate-related risks and opportunities.	Effective date is 1 January 2024 Subject to the endorsement by SOCPA

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTH AND NINE MONTH PERIODS ENDED 30 SEPTEMBER 2024
(Expressed in thousands Saudi Riyal unless otherwise stated)

2. BASIS OF PREPARATION (continued)

2.2 New and revised IFRSs 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 IFRSs that have been issued but are not yet effective:

Standard, interpretation, amendments	Description	Effective date
Amendment to IFRS 21 – Lack of exchangeability	IASB amended IAS 21 to add requirements to help in determining whether a currency is exchangeable into another currency, and the spot exchange rate to use when it is not exchangeable. Amendment set out a framework under which the spot exchange rate at the measurement date could be determined using an observable exchange rate without adjustment or another estimation technique.	January 1, 2025
IFRS 18- Presentation and Disclosure in Financial Statements	IFRS 18 provides guidance on items in statement of profit or loss classified into five categories: operating; investing; financing; income taxes and discontinued operations. It defines a subset of measures related to an entity's financial performance as 'management-defined performance measures' ('MPMs'). The totals, subtotals and line items presented in the primary financial statements and items disclosed in the notes need to be described in a way that represents the characteristics of the item. It requires foreign exchange differences to be classified in the same category as the income and expenses from the items that resulted in the foreign exchange differences.	January 1, 2027
IFRS 19 - Subsidiaries without Public Accountability: Disclosures	IFRS 19 allows eligible subsidiaries to apply IFRS Accounting Standards with the reduced disclosure requirements of IFRS 19. A subsidiary may choose to apply the new standard in its consolidated, separate or individual financial statements provided that, at the reporting date it does not have public accountability and its parent produces consolidated financial statements under IFRS Accounting Standards.	January 1, 2027
Amendments to IFRS 10 and IAS 28- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Partial gain or loss recognition for transactions between an investor and its associate or joint venture only apply to the gain or loss resulting from the sale or contribution of assets that do not constitute a business as defined in IFRS 3 Business Combinations and the gain or loss resulting from the sale or contribution to an associate or a joint venture of assets that constitute a business as defined in IFRS 3 is recognized in full.	Effective date deferred indefinitely
Amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures	Under the amendments, certain financial assets including those with ESG-linked features could now meet the SPPI criterion, provided that their cash flows are not significantly different from an identical financial asset without such a feature. The IASB has amended IFRS 9 to clarify when a financial asset or a financial liability is recognized and derecognized and to provide an exception for certain financial liabilities settled using an electronic payment system.	January 1, 2026

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 except for IFRS 18.

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTH AND NINE MONTH PERIODS ENDED 30 SEPTEMBER 2024**
(Expressed in thousands Saudi Riyal unless otherwise stated)

3. MATERIAL 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 2023.

4. CASH AND CASH EQUIVALENTS

	30 September 2024 (Unaudited)	31 December 2023 (Audited)
Cash in hand	35	35
Cash at banks	141,321	75,854
Certified cheques in hand (Note 4.1)	3,357	4,383
Cash and cash equivalents	144,713	80,272

Cash at banks include profit bearing Murabaha deposits of SR 57 million as at 30 September 2024 (31 December 2023: SR 31 million) with profit rate approximating 5.28% annually (2023: 5.28%) annually.

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 Certified cheques in hand

This balance represents the value of certified cheques issued for the purchase of properties under the approved Ijarah and Murabaha contracts and for which the transfer of title deeds 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 and related Ijarah and Murabaha contracts are not transferred to the Company as of the reporting date and there are no contractual rights and obligations of Company as of the reporting date under such Ijarah and Murabaha contracts.

5. RELATED PARTY TRANSACTIONS AND BALANCES

The related parties of the Company include the shareholders and affiliates, 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 terms approved by the Company's management and on an agreed basis with these related parties:

Name	Relationship
Arab National Bank ("ANB")	Shareholder
Dar Alarkan	Shareholder
Tharwat Alasool Real Estate Company	Affiliate
Wasalt Real Estate Services	Affiliate
Al Khair Capital	Affiliate
Quara Digital Private Limited	Affiliate

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTH AND NINE MONTH PERIODS ENDED 30 SEPTEMBER 2024
(Expressed in thousands Saudi Riyal unless otherwise stated)

5. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

The significant transactions during the period are as follows:

	For the three month period 30 September (Unaudited)		For the nine month period 30 September (Unaudited)	
	2024	2023	2024	2023
Tawaruq financing charges (ANB)	34,190	29,326	102,055	87,174
Residential unit purchased (Dar Alarkan)	500	756	1,613	756
Service fees, net (ANB)	514	691	1,612	2,243
Hedging (loss)/gain (ANB)	-	1,785	(947)	4,794
Rent paid (Tharwat Alasool Real Estate Company)	-	-	2,180	2,180
Profit on Murabaha deposit (ANB)	-	-	-	76
Technology support (Quara Digital PL)	48	53	87	108
Profit on Murabaha deposit (Al Khair Capital)	184	219	902	604

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

	30 September 2024 (Unaudited)	31 December 2023 (Audited)
Loan obtained from a shareholder (ANB) (note 14)	1,777,794	1,698,200
Deferred origination fees (ANB)	10,330	12,105
Due from a related party related to service fees (ANB)	587	504
Murabaha deposits (Al Khair Capital) (note 4)	57,026	31,123
Fair value of derivative financial instruments (ANB) (note 16)	-	26,947

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 are provided below:

	For the three month period 30 September (Unaudited)		For the nine month period 30 September (Unaudited)	
	2024	2023	2024	2023
Salaries	1,392	1,152	3,837	3,455
End of service benefits	58	55	160	164
Other allowances	438	348	1,258	1,043
Board of directors' remuneration	1,188	1,138	3,563	3,287
	3,076	2,693	8,818	7,949

SHL FINANCE COMPANY
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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTH AND NINE MONTH PERIODS ENDED 30 SEPTEMBER 2024
(Expressed in thousands Saudi Riyal unless otherwise stated)

6. PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses and other assets comprise of the following:

	30 September 2024 (Unaudited)	31 December 2023 (Audited)
Prepaid financing facility fees	895	1,592
Prepaid Insurance	1,248	1,183
Prepaid software maintenance	1,129	801
Advance tax (note 12)	2,473	675
Prepaid sales commission	5,327	3,953
Others	2,325	1,243
	13,397	9,447

7. OTHER RECEIVABLES, NET

	30 September 2024 (Unaudited)	31 December 2023 (Audited)
Insurance claims receivable on deceased case leases	26,262	31,481
Receivables under litigation	12,357	12,131
VAT receivable from Ministry of housing	367	5,720
Due from Saudi Real Estate Refinance Company ("SRC")	867	-
Due from Zakat, Tax and Customs Authority ("ZATCA")	259	867
Employees' advances and receivables	257	101
Others	479	477
	40,848	50,777
Allowance against insurance and legal claims	(22,791)	(25,138)
	18,057	25,639

Allowance against insurance and legal claims comprise the following:

	30 September 2024 (Unaudited)	31 December 2023 (Audited)
Allowance against insurance claims receivable on deceased case leases	19,181	21,528
Allowance against legal claims	3,610	3,610
	22,791	25,138

Movement in allowance is as follows:

	Allowance against insurance claim	Allowance against receivable under litigations
1 January 2024 (Audited)	21,528	3,610
Reversal during the period, net	(2,347)	-
30 September 2024 (Unaudited)	19,181	3,610

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTH AND NINE MONTH PERIODS ENDED 30 SEPTEMBER 2024
(Expressed in thousands Saudi Riyal unless otherwise stated)

7. OTHER RECEIVABLES, NET (continued)

Movement in allowance during the year ended 31 December 2023 is as follows:

	Allowance against insurance claim	Allowance against receivable under litigations
1 January 2023 (Audited)	23,475	3,610
Reversal during the year, net	(1,947)	-
31 December 2023 (Audited)	<u>21,528</u>	<u>3,610</u>

The Company recognizes 100% allowance against all rejected insurance claims. The Company is following the collection rules and procedures to settle and recover these due amounts.

8. INVESTMENTS IN FINANCE LEASE, NET

	30 September 2024 (Unaudited)	31 December 2023 (Audited)
Investments in finance lease, gross	5,610,595	5,668,811
Less: Unearned finance income	(2,046,917)	(2,037,777)
Investments in finance lease before expected credit loss	3,563,678	3,631,034
Less: Allowance for expected credit loss	(23,316)	(25,463)
Investments in finance lease, net	<u>3,540,362</u>	<u>3,605,571</u>

Total number of outstanding lease agreements as at 30 September 2024 is 5,784 (31 December 2023: 5,957).

The Company generates substantially all of its revenues from leasing real estate properties in the Kingdom of Saudi Arabia. Investment in finance lease represents amounts due from individual customers.

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

	30 September 2024 (Unaudited)	31 December 2023 (Audited)
Balance at the beginning of the period/year	25,463	31,056
Reversal of provision previously written off net of current period/year write offs	1,574	974
Reversal during the period/year	(3,721)	(6,567)
Balance at the end of the period	<u>23,316</u>	<u>25,463</u>

During the nine-month period ended 30 September 2024, the Company has reversed previously written off provision of SR 1.6 million after repossessing the underlying properties from defaulted customers (nine-month period ended 30 September 2023: SR 1 million written off).

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8. INVESTMENTS IN FINANCE LEASE, NET (continued)

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

30 September 2024 (Unaudited)	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Loss rate in %	0.07	2.29	11.48	0.65
Investments in finance lease before ECL	3,139,083	301,130	123,465	3,563,678
Allowance for ECL	(2,239)	(6,901)	(14,176)	(23,316)
Net carrying amount	3,136,844	294,229	109,289	3,540,362
31 December 2023 (Audited)	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Loss rate in %	0.12	2.19	13.01	0.70
Investments in finance lease before ECL	3,279,037	225,693	126,304	3,631,034
Allowance for ECL	(4,080)	(4,945)	(16,438)	(25,463)
Net carrying amount	3,274,957	220,748	109,866	3,605,571

8.3 Maturity profile of the lease receivables is as follows:

Year	30 September 2024 (Unaudited)			31 December 2023 (Audited)
	Gross lease receivables	Unearned finance income	Investments in finance lease	Investments in finance lease
Within one year	563,190	284,754	278,436	277,382
Year two	587,392	261,850	325,542	282,834
Year three	524,561	235,867	288,694	286,506
Year four	497,884	209,912	287,972	284,200
Year five and later	3,437,568	1,054,534	2,383,034	2,500,112
	5,610,595	2,046,917	3,563,678	3,631,034

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.

The Company is not exposed to foreign currency risk as a result of the lease arrangements, as all leases are denominated in SR. No residual value is considered when entering or accounting for the lease contracts.

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9. MURABAHA RECEIVABLES, NET

	30 September 2024 (Unaudited)	31 December 2023 (Audited)
Murabaha receivables, gross	1,147,718	921,477
Less: Unearned finance income	(404,343)	(340,823)
Murabaha receivables before expected credit loss	743,375	580,654
Less: Allowance for expected credit loss	(7,814)	(3,064)
Murabaha receivables, net	735,561	577,590

Below is the breakup of Murabaha receivables:

30 September 2024 (Unaudited)	Personal Finance	SMEs	Real estate	Total
Murabaha receivables, gross	43,357	119,039	985,322	1,147,718
Less: Unearned finance income	(10,099)	(23,296)	(370,948)	(404,343)
Murabaha receivables before expected credit loss	33,258	95,743	614,374	743,375
Less: Allowance for expected credit losses	(911)	(465)	(6,438)	(7,814)
Murabaha receivables, net	32,347	95,278	607,936	735,561
31 December 2023 (Audited)	Personal Finance	SMEs	Real estate	Total
Murabaha receivables, gross	30,935	25,300	865,242	921,477
Less: Unearned finance income	(7,835)	(1,730)	(331,258)	(340,823)
Murabaha receivables before expected credit losses	23,100	23,570	533,984	580,654
Less: Allowance for expected credit losses	(447)	(94)	(2,523)	(3,064)
Murabaha receivables, net	22,653	23,476	531,461	577,590

Total number of outstanding Murabaha contracts, including personal finance and small and medium enterprise ("SME") loan receivables as at 30 September 2024 are 944 (31 December 2023: 806). Amounts due under Murabaha receivables and personal finance are due from individual natural person.

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9. MURABAHA RECEIVABLES, NET (continued)

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

	30 September 2024 (Unaudited)	31 December 2023 (Audited)
Balance at the beginning of the period/year	3,064	1,005
Charge for the period/year	4,750	2,059
Balance at the end of the period/year	7,814	3,064

9.2 The credit quality of Murabaha receivables is as follows:

30 September (Unaudited)	2024 12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Loss rate in %	0.30	2.71	23.05	1.05
Murabaha receivables before ECL	688,738	33,740	20,897	743,375
Allowance for ECL	(2,085)	(913)	(4,816)	(7,814)
Net carrying amount	686,653	32,827	16,081	735,561

31 December 2023 (Audited)	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Loss rate in %	0.31	1.89	15.37	0.53
Murabaha receivables before ECL	558,418	15,261	6,975	580,654
Allowance for ECL	(1,703)	(289)	(1,072)	(3,064)
Net carrying amount	556,715	14,972	5,903	577,590

9.3 Maturity profile of the Murabaha receivables is as follows:

Year	30 September 2024 (Unaudited)			31 December 2023 (Audited)
	Gross Murabaha receivables	Unearned finance income	Murabaha receivables	Murabaha receivables
Within one year	161,401	65,862	95,539	56,391
Year two	133,290	56,445	76,845	39,272
Year three	111,104	49,748	61,356	42,879
Year four	104,631	43,277	61,354	40,385
Year five and later	637,292	189,011	448,281	401,727
	1,147,718	404,343	743,375	580,654

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10. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable mainly includes amounts pertaining to VAT payable to ZATCA and payable for evaluation and other services provided to the Company.

11. ACCRUED EXPENSES AND OTHER LIABILITIES

	30 September 2024 (Unaudited)	31 December 2023 (Audited)
Employees' related expenses	6,386	6,906
Board related expenses	3,563	4,903
Accrued annual maintenance changes	59	65
Deferred application and accrued fee	2,316	1,239
Others	1,524	1,915
	13,848	15,028

12. PROVISION FOR ZAKAT AND INCOME TAX

Movements in the provision for zakat is as follows:

	30 September 2024 (Unaudited)	31 December 2023 (Audited)
Balance at the beginning of the period/year	526	12,970
Provision for zakat for the current period/year	3,482	526
Payment during the year against previous years	-	(4,059)
Payment during the period	(526)	(8,911)
Balance at the end of the period/year	3,482	526

Movements in the provision for tax is as follows:

	30 September 2024 (Unaudited)	31 December 2023 (Audited)
Balance at the beginning of the period/year	-	-
Reclassified from prepaid expenses and other assets	(675)	(1,842)
Provision for tax for the current period/year	464	2,191
Payment during the period/year	(2,262)	(1,024)
Reclassified to prepaid expenses and other assets	2,473	675
Balance at the end of the period/year	-	-

According to the Implementing Regulation for Zakat Collection, shareholders subject to Zakat are the resident persons and companies holding Saudi nationality and nationals of a member state of the Gulf Cooperation Council of Arab States of the Gulf (GCC) who are accorded similar treatment as Saudi National.

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

The Company has filed its zakat and income tax returns for the years from 2008 up to 2023 and have received final assessment up to 2018.

ZATCA conducted a review for the two years 2021 & 2022 and these are still under assessment.

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12. PROVISION FOR ZAKAT AND INCOME TAX (continued)

Prior years income tax adjustment

During the nine-month period ended 30 September 2023, ZATCA approved a refund of SR 2.3 million (presented as "income tax refund for previous periods" in the condensed interim statement of profit or loss and comprehensive income) which relates to previous' years income tax adjustments. The remaining amount receivable from ZATCA in respect of these refunds is SR 0.9 million (31 December 2023: SR 0.9 million) which is expected to be received in due course and is presented within other receivables in note 7.

13. DEFERRED TAX

	30 September 2024 (Unaudited)	31 December 2023 (Audited)
Balance at the beginning of the period/year	1,757	1,917
Movement during the period/year	(19)	(160)
Balance at end of the period/year	1,738	1,757

14. TAWARRUQ FINANCING FACILITIES

	30 September 2024 (Unaudited)	31 December 2023 (Audited)
Principal amounts outstanding	2,782,238	2,654,522
Accrued Tawarruq financing charges	17,327	12,563
	2,799,565	2,667,085

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 except for SRC that would be paid fully at the end of the facility period.

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 September 2024 (Unaudited)	31 December 2023 (Audited)
Defined benefit obligation at the beginning of the period/year	11,677	9,732
Current service cost	1,266	1,628
Interest cost on defined benefit obligation	428	516
Benefits paid to outgoing employees	(1,520)	(590)
Actuarial (gain)/loss on obligation	(631)	391
Defined benefit obligation at the end of the period/year	11,220	11,677

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16. DERIVATIVE FINANCIAL INSTRUMENT

During 2022, the Company entered into an Interest Rate Swap (“IRS”) agreement to hedge its interest rate exposure on certain finance lease contracts through exchanging fixed rate interest payments at 1.47% monthly with USD-SOFR based interest payments paid monthly. The hedging instrument is denominated in United States Dollar. The Company does not apply hedge accounting treatment.

During the period, on 3rd January 2024, the management cancelled the hedging agreement and received SR 26 million against cancelation of hedging instrument.

The positive fair value of the IRS as at 31 December 2023 was SR 26.95 million with a notional amount of SR 179 million. The notional amount provided an indication of the volumes of the transactions outstanding at the end of the period and did not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, were neither indicative of the Company’s exposure to credit risk nor market risk.

The hedging loss recognized in the condensed interim statement of profit or loss and other comprehensive income during the nine-month period ended is SR 0.95 million (hedging income for the nine-month period ended 30 September 2023: SR 5.18 million).

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.

The shareholding of the Company as at 30 September 2024 and 31 December 2023:

	Number of shares of SR 10 each	Share capital
ANB	29,400	294,000
Dar Al Arkan Real Estate Development Company	10,500	105,000
Youssef bin Abdullah Al Shalash	5,600	56,000
Public and others (listed on Tadawul)	54,500	545,000
	100,000	1,000,000

Public and others include the public shareholders and the founding shareholders who own less than 5% shares.

18. SELLING AND MARKETING EXPENSES

	For the three month ended September 30 (unaudited)		For the nine month ended September 30 (unaudited)	
	2024	2023	2024	2023
Sales, & other commission	782	1,454	1,989	2,955
Marketing expenses	37	141	186	273
Others	338	98	940	515
	1,157	1,693	3,115	3,743

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19. GENERAL AND ADMINISTRATIVE EXPENSES

	For the three month ended September 30 (unaudited)		For the nine month ended September 30 (unaudited)	
	2024	2023	2024	2023
Employees' salaries and other benefits	14,412	17,588	45,086	45,550
Board of Director's remuneration	1,188	1,138	3,563	3,287
Consultation fees	1,509	1,079	3,928	3,787
Depreciation & amortisation	1,124	1,124	3,347	3,376
Software support charges	769	1,018	2,449	2,217
Collection commission	702	801	1,926	2,381
VAT expense	1,248	1,025	2,833	3,036
Telecommunication expenses	365	192	1,096	720
Repairs and maintenance	70	90	218	277
Others	947	1,079	2,231	2,771
	22,334	25,134	66,677	67,402

20. EARNINGS PER SHARE

The basic earnings per share have been computed by dividing net profit for the year by the weighted average number of shares outstanding during the period. The calculation of diluted earnings per share is not applicable to the Company. The basic earnings per share are calculated as follows:

	For the three month ended September 30 (unaudited)		For the nine month ended September 30 (unaudited)	
	2024	2023	2024	2023
Net income for the year	5,112	4,769	15,767	9,810
Weighted average number of ordinary shares	100,000	100,000	100,000	100,000
Basic and diluted earnings per share (expressed in SR per share)	0.05	0.05	0.16	0.10

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21. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

Financial instruments comprise mainly of cash and cash equivalents, due from related parties, other receivables, investment held at FVOCI, derivative financial instrument, 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 market variable rates and hence, there is no significant 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.

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.

22. PURCHASE AND AGENCY AGREEMENTS

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 investment in finance lease 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. The Company has assumed an obligation to pay the cashflows from the investment in finance lease to SRC and as such, upon sale, the Company derecognizes the investment in finance lease receivables from its books and recognizes the difference as either gain or loss on derecognition of investment in finance lease receivables.

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. Under the agreement, the Company's right to cashflows have expired and transferred to ANB.

The Company services them on behalf of ANB as an agent for a monthly fee as per the terms of the Service Agreements. The services mainly relate to arranging insurance coverage for the entire period

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22. PURCHASE AND AGENCY AGREEMENTS (continued)

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, net of insurance charges of SR 2.7 million during the nine-month period ended 30 September 2024 (30 September 2023: SR 3.4 million).

23. COMMITMENT AND CONTINGENCIES

The Company is, from time to time, a defendant in lawsuits in respect of leased properties and receivables. Some of these suits make no specific claim for relief. Although final determination of any liability and resulting financial impact with respect to any such matters cannot be ascertained with any degree of certainty, management does not believe that any ultimate uninsured liability resulting from these matters in which it is currently involved will individually, or in the aggregate, have a material adverse effect on the financial position, liquidity or results of operations of the Company.

Further, the Company is also a plaintiff in a number of lawsuits mainly relating to eviction from properties and maintenance claims where any expected recovery, representing a contingent asset has not been recognized.

As at the reporting date, the Company has committed undisbursed financing of SR 3.3 million (2023: SR 6.0 million)

24. APPROVAL OF THE BOARD OF DIRECTORS

These financial statements were approved by the Board of Directors on 22 Rabi Al-Akhar 1446H (corresponding to 24 October 2024).